

Accenture

4th Quarter Fiscal 2020 Conference Call

Conference Call Transcript

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CORPORATE PARTICIPANTS

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PRESENTATION

Angie Park

Thank you, operator, and thanks everyone for joining us today on our fourth-quarter and full 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 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 the 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 positioning before KC provides our business outlook for the first quarter and full fiscal year 2021. 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 thank you everyone for joining us.

Our fiscal '20 results demonstrate the relevance of our growth strategy, the resilience of our business and our people, our operational rigor and discipline, the power of the relationships we have with the world's leading companies and ecosystem partners, and our ability to pivot rapidly to meet the needs of our clients and new ways of operating. Fiscal year '20 also demonstrated the unique advantages of our long track record of focusing on being a responsible business, from our commitment to inclusion and diversity that has helped make us an innovation-led company, to our focus on investing in our people and their skills, to the way we live our core values, all of which help make us the trusted partner that our clients have turned to in the face of the ongoing global health, economic and social crisis.

And if there was ever any doubt, we clearly demonstrated that scale matters. We are unique in our industry for the scale of our digital, cloud and security capabilities, and for our leadership in

all the services critical to building a company's digital core, transforming its operations and accelerating growth, with our four services of strategy and consulting, interactive, technology and operations, as well as our deep industry experience and data and artificial intelligence capabilities. And we are also unique in the scale we have with large client relationships, and across 13 industry groups with a global footprint. This scale has been core to our resilience in the second half of FY20. Let me share a few highlights.

- We are now approximately 70% in “the New”—digital, cloud and security—just when the need for these services, already high, accelerated dramatically as a result of COVID-19. In fact, in FY21, we will no longer measure “the New” as the new is now our core, and as of March 1st, with the new growth model, we have embedded digital everywhere. We will continue to share color on our growth drivers, including cloud and security, as we continue to invest in these large, high-growth market opportunities.
- We ended FY20 with 216 diamond clients, which represent our largest client relationships, a net increase of 15 over the prior year.
- We transitioned seamlessly to our new growth model, with a new Global Management Committee, to increase our agility in bringing together the power of our multi-service teams to our clients, and to create greater opportunities for our people. And the new model and team successfully passed a challenging test—navigating the pandemic and emerging stronger—more on that later.
- We committed to stronger bookings in Q4, and we delivered with our 2nd highest bookings ever in the fourth quarter, finishing the year with a record \$50 billion of sales.
- In FY20, we continued to increase our investments for the future, at scale, with \$1.5 billion in acquisitions, \$871 million in R&D in our assets, platforms, and solutions, including growing our portfolio of patents and pending patents to over 7,900, and delivering a 6% increase in training hours for our 500,000 people—while reducing our training costs by 11% to \$866 million, due to our digital learning platforms.
- We are now 45% women, on track for our 2025 goal of a 50/50 gender balance. And this month we announced ambitious new goals to increase our African American and Black and Hispanic American and Latinx communities in the U.S.
- And despite the unprecedented uncertainty and volatility, with the pandemic declared only a few days before we had to give guidance for Q3, we called it like we saw it for each of Q3 and Q4, and delivered within our guidance. For the full year, we delivered either within or above our guided range and continued to deliver growth ahead of market, modest margin expansion, and record free cash flow.

Our resilience begins with an exceptional leadership team and our incredibly talented and dedicated people. Before I turn over to KC, I want to thank each of them for what has truly been an exceptional year that we should all be proud of. KC over to you...

KC McClure

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

We were pleased with our overall results in the fourth quarter, which were within our guided range and aligned to our expectations. Our results reinforce our distinctive position in the marketplace and reflect the diversity of our business. Once again, these results illustrate Accenture's unique ability to run our business with discipline and deliver significant value for our shareholders in an uncertain environment.

So, let me begin by summarizing a few of the highlights of the quarter.

- Revenues declined 1% in local currency, in line with our guided range. This includes a reduction of approximately 2 percentage points from a decline in revenues from reimbursable travel costs. Importantly, aligned with our growth imperative, we continue to take significant market share for both the quarter and the year.

The diversity of our business continues to serve us well. From an industry perspective, consistent with last quarter, approximately 50% of our revenues came from seven industries that were less impacted from the pandemic and in aggregate grew high single digits, with continued double-digit growth in Public Service, Software & Platforms, and Life Sciences. At the same time, as we expected, we saw continued pressure from clients in highly impacted industries which include Travel, Retail, Energy, High Tech including Aerospace and Defense, and Industrial. While performance varied, this group collectively represents over 20% of our revenues and declined mid-teens.

- Operating margin was 14.3%, an increase of 10 basis points for the quarter and the full year. We continued to drive sustainable margin expansion while making significant investments in our business and our people, to extend our market leadership. We continued to benefit from lower spend on travel, meetings, and events.
- And, finally, we delivered free cash flow of \$3 billion, which surpassed our expectations, driven by superior DSO management.

Now, let me turn to some of the details.

New bookings were \$14 billion for the quarter, our second-highest on record, and reflect 9% growth with a book-to-bill of 1.3.

- Consulting bookings were \$6.5 billion, with a book-to-bill of 1.1.
- Outsourcing bookings of \$7.5 billion were a record, with a book-to-bill of 1.5.

Bookings continued to be dominated by strong demand for digital, cloud and security-related services which we estimate represented approximately 70% of our new bookings.

We were very pleased that we delivered on our expectations of strong bookings this quarter. And they came in as we expected with strong bookings in Technology and Operations and lower bookings in Strategy & Consulting.

Turning now to revenues...

Revenues for the quarter were \$10.8 billion, a 1% decline in local currency and 2% decline in USD, including a reduction of approximately 2% from a decline in revenues from reimbursable travel costs.

- Consulting revenues for the quarter were \$5.7 billion – a decline of 8% in both local currency and USD, which includes a reduction of approximately 3% from a decline in revenues from reimbursable travel costs.
- Outsourcing revenues were \$5.2 billion – up 7% in local currency and 6% in USD.

Digital, cloud and security-related services grew low single digits.

Taking a closer look at our service dimensions. Operations grew high single digits, Technology Services grew mid single digits, and Strategy & Consulting Services declined low-teens.

Before I give color on our Markets, the industry dynamics that I mentioned previously played out in a similar fashion across all three....

- In North America, revenue growth was flat in local currency.
- In Europe, revenue declined 5% in local currency. We saw mid single digit growth in Italy, slight growth in Germany, with continued declines in the U.K.
- In the Growth Markets, we delivered 3% revenue growth in local currency led by double-digit growth in Japan and high single-digit growth in Brazil.

Moving down the income statement...

Gross margin for the quarter was 31.8%, compared with 31.1% for the same period last year.

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

General and administrative expense was 6.8% compared to 6.2% for the same quarter last year.

Operating income was \$1.5 billion in the fourth quarter, reflecting a 14.3% operating margin, up 10 basis points compared with Q4 last year.

Before I continue, I'd like to highlight an investment gain that impacted our tax rate and increased EPS by \$0.29 for the fourth quarter and \$0.43 for the full year. Of this \$0.43 gain, \$0.27 was factored into the full-year EPS guidance provided in June and a quarterly reconciliation can be found on our website. The following comparisons exclude this impact and reflect adjusted results.

Our adjusted effective tax rate for the quarter was 28.4%, compared with an effective tax rate of 26.6% for the fourth quarter last year.

Adjusted diluted earnings per share were \$1.70, compared to EPS of \$1.74 in the fourth quarter last year. For the fiscal year, adjusted earnings per share were \$7.46, which was \$0.03 above our adjusted guided range for the year.

Days Services Outstanding were 35 days, compared to 41 days last quarter and 40 days in the fourth quarter of last year.

Free cash flow for the quarter was \$3 billion, resulting from cash generated by operating activities of \$3.2 billion, net of property and equipment additions of \$189 million.

Our cash balance at August 31st was \$8.4 billion, compared with \$6.1 billion at August 31st last year.

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

In the fourth quarter, we repurchased or redeemed 2.6 million shares for \$590 million, at an average price of \$225.25 per share.

Also, in August, we paid our fourth quarterly cash dividend of \$0.80 per share, for a total of \$509 million. And, our Board of Directors declared a quarterly cash dividend of \$0.88 per share to be paid on November 13th, a 10% increase over last year, and approved \$5.0 billion of additional share repurchase authority.

Reflecting on our results for the full year, we started with strong momentum in the first half and quickly adjusted and reset with the onset of the pandemic.

- We delivered approximately \$50 billion in new bookings, reflecting a 10% increase over last year, setting two record highs this year.
- We continued to provide guidance on our business throughout the year, and importantly delivered revenues within our guided range at 4%, significantly taking market share.
- We delivered on our commitment of margin expansion, even with lower top-line growth, and fully continued all elements of our capital allocation.....with \$1.5 billion of investments in acquisitions, a record \$7.6 billion of free cash flow, and returned \$5 billion of cash to shareholders, exceeding our outlook provided last September.

In closing, with FY20 behind us, we are proud of how we managed our business and delivered for our clients, our people, our shareholders, our partners and our communities, in what was a truly unprecedented fiscal year ... and, we feel really good about our positioning for fiscal '21.

Now let me turn it back to Julie.

Julie Sweet

Thank you, KC.

From an overall demand perspective, the trends that we discussed last quarter are continuing. Companies need to accelerate their digital transformation across their enterprises and move to the cloud, address cost pressures, which vary by industry but are universal, build resilience,

adjust their operations and customer engagement to a remote-everything environment, and find new sources of growth.

Now I will give you a little more color on the depth and breadth of our ability to deliver value to our clients in this environment through the lens of some of our 17 clients with new bookings over \$100 million in Q4. Then I will turn to FY21.

Diebold Nixdorf, a global leader in services, software and hardware for the banking and retail industries, and Accenture have extended a strategic agreement to accelerate Diebold Nixdorf's multiyear digital and cloud transformation program, which includes streamlining its finance, human resource, IT and sales systems. The collaboration will unlock approximately \$50 million of incremental savings through 2023, while improving business productivity, consolidating operations and enabling investment in innovation and growth opportunities.

Prudential Financial, a financial wellness leader and premier active global investment manager, has entered into an agreement with Accenture to transform its Group Insurance operating model by redesigning its processes, operations and technology to create simple, intuitive interactions between brokers, customers and employees that enhance financial wellness. New digital solutions designed by Accenture Interactive—and powered by artificial intelligence and analytics from our SynOps platform and our Operations team—will provide more data-driven, seamless and human-centered experiences in onboarding, billing and claims processes, enhancing user satisfaction and ultimately revenue growth.

Halliburton, a leading global provider of products and services to the energy industry, Accenture and Microsoft entered into a five-year strategic agreement to advance Halliburton's digital capabilities in Microsoft Azure. Halliburton will complete its move to cloud-based digital platforms, drive additional business agility, reduce capital expenditures and strengthen its customer offerings, as well as achieve sustainability benefits by migrating all of its physical data centers to Azure.

A leading global automotive company has selected Accenture to migrate 55% of its applications over 18 months to the cloud, working with its ecosystem partners for the public cloud, AWS and GCP, and HPE for its hybrid cloud. This work will address both cost pressures and the need to transform their IT infrastructure to address obsolescence and provide digital experiences.

These examples are noteworthy for their diversity across industries, complexity, requiring multi-service teams, strong ecosystem partnerships, and using our assets, platforms and solutions. And many involve us delivering what we call 360-degree value—because we are creating agility, helping reskill our clients' employees, or helping reduce their carbon footprint through the move to the cloud, in addition to delivering clear financial value.

And stepping back for a moment. Our clients were being impacted by unprecedented change before COVID-19. Then came COVID-19, giving a whole new meaning to unprecedented and requiring our clients to change virtually every aspect of their business faster than ever before. And they are turning to us to help them embrace that need for change and become stronger.

Turning to FY21.

Our own formula for market leadership is enduring: we continually transform our business and embrace change to create more value for our clients with incredibly talented people.

We view fiscal year '21 as turning a page—we are no longer navigating a crisis, we are facing a new reality, and we plan on returning to pre-COVID growth rates by the second half of this fiscal year.

And we are ready. We are emerging from the second half of FY20 stronger than when we entered, which was our strategy. As a leadership team, we set five measures of what stronger means, and we have met each of them:

First, did we grow market share faster than pre-COVID—check, we grew at approximately 4 times the market in H2 as compared to 2 times the market in H1, and as a reminder, when we say market, we were referring to our basket of publicly traded companies.

Second, did we execute on our big deal pipeline in H2 despite the crisis, which would be a proxy for enhancing our role as the trusted, transformation partner—check, in fact, we had 3 more clients with over \$100 million of bookings in H2 compared to H1 of this year.

Third, did we capture new growth opportunities—check, we have had substantial new bookings in the health and public sector such as the 10 states in the U.S. where we are doing contact tracing, in remote collaboration services, as well as cloud, security, supply chain and digital manufacturing, which helped offset a portion of the severe impact on some of our clients.

Fourth, did we continue to invest in our business and our people—check. Not only did we invest significantly in our business and increase our training hours, but we also created the capacity to pay our people meaningful bonuses for FY20 performance, and are planning for a significant level of promotions in our upcoming December promotion cycle ... and all of this we believe will distinguish us from our competitors, and finally ...

Fifth, did we continue to deliver consistently on our shareholder commitments—check, and we also reduced structural costs through our new growth model and took steps to accelerate our FY21 usual level of performance management-related exits of around 5% each fiscal year, so that we are preserving our talented workforce for the future while positioning ourselves for modest margin expansion and continued investment in our business in FY21.

Before KC gives you more details on our FY21 outlook, I want to touch on Accenture Cloud First, which is an example of how we anticipate client needs, and then act, at speed and at scale.

Last week we announced the creation of Accenture Cloud First and a \$3 billion investment over three years, which will be funded by prioritizing our expected investments across the business. Accenture Cloud First is a new multi-service group of 70,000 cloud professionals, with more than 100,000 people providing cloud-related services, which brings together the full power and breadth of Accenture's industry and technology capabilities, ecosystem partnerships, and deep commitment to upskilling clients' employees and to responsible business, with the singular focus of enabling organizations to move to the cloud with greater speed and achieve greater value for all their stakeholders at this critical time.

We have been building our cloud capabilities for the last decade and are a leader with approximately \$12 billion in cloud revenue for FY20, growing double digit, which includes our SaaS capabilities delivered through our Intelligent Platform Services business.

This positioned us well to recognize that COVID-19 has created a new inflection point that requires every company to dramatically accelerate the move to the cloud as a foundation for digital transformation to build the resilience, new experiences and products, trust, speed and structural cost reduction that the ongoing health, economic and societal crisis demands—and that a better future for all requires. Post-COVID leadership requires that every business become a 'cloud first' business, quickly moving from today's approximately 20% in the cloud to 80%. This is a once in the digital era massive re-platforming of global business.

Accenture Cloud First works seamlessly with our Intelligent Platform Services, which focuses on our SaaS capabilities, which are an important part of replatforming global businesses.

Recent wins include working with a leading consumer goods manufacturer on a global deployment of SAP S4/HANA, initially focusing on their central finance system and building a new digital backbone for the entire supply chain in China, from purchasing to direct consumer sales; working with the U.S. Air Force to establish a new cloud-based common infrastructure for its Oracle enterprise resource planning programs; working with a bank on the integration of their front office operations and enhancing customer relationships, powered by Salesforce; and working with a top higher education research institution to implement Workday to transform their HR capabilities to drive real-time data analytics and become a strategic partner across the organization.

And ServiceNow is another digital platform that is critical—for example, for a public service agency, we collaborated with ServiceNow to rapidly implement a cloud-enabled workflow solution enabling millions of citizens to access government services while complying with dynamic pandemic health safety guidelines.

Now over to you KC....

KC McClure

Thanks Julie.

Before I get into our business outlook, as I did last quarter, I would like to remind you that given the coronavirus pandemic there are a number of factors that we may not be able to accurately predict, including the duration and magnitude of the impact, the pace of recovery, as well as those described in our most recent quarterly filings.

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

For the first quarter of fiscal '21, we expect revenues to be in the range of \$11.15 - \$11.55 billion. This assumes the impact of FX will be about positive 1.5% compared to the first quarter of fiscal '20. It also reflects an estimated negative 3% to flat growth in local currency and includes a reduction of approximately 2 percentage points from a decline in revenue from reimbursable travel costs.

For the full fiscal year '21...

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 positive 2% compared to fiscal '20.

For the full fiscal '21, we expect our revenue to be in the range of 2% to 5% growth in local currency over fiscal '20, including approximately negative 1% from a decline in revenues from reimbursable travel, based on a 2% reduction the first half of the year, and no material impact in the 2nd half of the year.

A couple of key points that are helpful to understand our guidance. We expect our growth will be lower in H1, with Q1 and Q2 ranges being similar. And we expect we will reconnect with higher growth in H2, in the range of high single digits to low double digits.

For operating margin, we expect fiscal year '21 to be 14.8% to 15%, a 10 to 30 basis-point expansion over fiscal '20 results.

We expect our annual effective tax rate to be in the range of 23% to 25%. This compares to an adjusted effective tax rate of 23.9% in fiscal '20.

For earnings per share, we expect full-year diluted EPS for fiscal '21 to be in the range of \$7.80 to \$8.10, or 5% to 9% growth over adjusted fiscal '20 results.

For the full fiscal '21, we expect operating cash flow to be in the range of \$6.35 to \$6.85 billion, property and equipment additions to be approximately \$650 million, and free cash flow to be in the range of \$5.7 to \$6.2 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 \$5.3 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. Once again, ladies and gentlemen, if you'd like to ask a question, please press 1 and then 0 on your keypad. You can withdraw your question at any time by repeating that 1, 0 command. And if you're using a speaker phone, please pick up your handset before pressing the numbers. Once again for questions today, it's 1 and then 0.

Our first question today will come from the line of Tien-tsin Huang of JP Morgan, please go ahead.

Tien-tsin Huang

Thank you. Thank you so much. I wanted to – you gave a lot of good information here. It sounds like Strategy & Consulting services saw the biggest rate of change exiting the year – a little bit

more pressure – I know Operations improved. So I'm curious on the visibility and the outlook for Strategy & Consulting in fiscal '21, I presume that's going to see probably a nice recovery in the second half, based on your comments there, and are you over-indexed at all in Strategy & Consulting to some of the industries impacted by the pandemic?

KC McClure

Thank you, Tien-tsin, for your question. So let me talk about what we see for growth in Strategy & Consulting and Julie can pass on some additional color. So the first thing I'd say is that when we look at Strategy & Consulting, we really do see that it's held up in this environment because it really is critical to our differentiation in the places where our clients are continuing to invest.

And if we look at the actual results, Strategy & Consulting came in really as we expected in Q4. And you're right, it does follow a very similar pattern from an industry perspective, Tien-tsin, where we see pressure in Strategy & Consulting in the most highly impacted industries in the market.

Now in terms of the dynamics for growth, we see the same dynamics in the first quarter, essentially, that we're seeing, from an industry perspective in Strategy & Consulting growth in the first quarter as we saw in the fourth quarter. And that should play out pretty similar in the first half. But we do see recovery and reconnecting with growth in the back half of the year.

Let me hand it over to Julie for some more color.

Julie Sweet

Yeah, Tien-tsin, I think what's important, so we're not over-indexed in Strategy & Consulting versus the rest of our business and industries. And so, how it's kind of worked with sort of 20% in severe industries, etc. As I talked about last quarter, when you think about Strategy & Consulting, it's a huge differentiator in some of these transformational deals and I'll talk about that in a minute.

And then as I said, the leading companies right now are very focused. So some of the smaller work that you would do to sort of incubate and to start doing things, companies are saying, and we're telling companies, focus on the big rocks that you need to do, right.

And so, what's playing out in the market isn't about sort of a weakness in Strategy & Consulting, it's a reflection of how our clients are thinking about their businesses and what they need. So I'm actually quite pleased with how well Strategy & Consulting is holding up. And the thing that's the most important is that this is how we're delivering 17 clients with over \$100 million bookings because each of these big transformations require this deep understanding of industry and functions and you see that in other places.

For example, the Bank of England. We announced a deal there where we're helping them with their high-value payments infrastructure to support resilience and innovation. Digital payments and instant payments were huge before the crisis, and you know it's changed dramatically. And because we understand the industry, we have cross-industry expertise in how digital payments are being used, as well as the understanding of data and the technology. Those things come together to create this new system that improves resiliency, customer experience, access to data and end-to-end risk management. No one can do that with all of those skills, but us.

Operator

Next question is from Lisa Ellis from MoffetNathanson.

Lisa Ellis

Yes, good morning, thanks guys, thanks for taking my question. Yeah, following up a little bit on – well, related question to Tien-tsin's question, about Consulting. Can you talk a little bit about, it's looking like, obviously, revenues down in the quarter, but then bookings in Consulting very strong? I guess a follow-up on that is what are you seeing clients commit to in the current environment on the Consulting side of things? Like meaning, what's their willingness to commit on these kind of new, more strategic projects in the current environment? I'll leave it there and then I have a follow-up. Thank you.

Julie Sweet

So, Lisa, and again, I know all of you guys think very much about Strategy & Consulting and then the Technology and Operations separately. But, in fact, as I've said consistently, including pre-COVID, we really think about our services together. But let me just give you an example of one of the most severely impacted industries, energy.

So last week, I'm with the CEO and the leadership team of one of our major clients, and the meeting goes like this. The first part of the meeting is thank you very much Accenture for helping us save money in finance and accounting operations 'cause we lowered what they needed to create – help them with their cost pressures. Then the next part of the meeting is all about the IT modernization that we signed during Q3, which includes Strategy & Consulting, it includes our application outsourcing maintenance and it includes other Technology services. And that was about, because they have to continue to build their digital core, it's helping them with costs, but it's also about moving to the cloud, it's about creating those capabilities.

Then the third part of the meeting was around some pilots that we're trying to shape with them that are driven by Strategy & Consulting, where the criteria is we need to turn them faster. So they're small pilots, all about innovation, but the criteria we're helping them say is, well, what should we do that will get more return, because they've got to balance.

So, again, we think about this as what are the needs of the client and how do we bring these services to deal with their short term, their longer-term transformation and also thinking very quickly about how they can innovate to get nearer-term returns. Does that help kind of bring that together in terms of how they're thinking?

Lisa Ellis

Yes, yes, thank you. And then my follow-up, this is kind of a broader industry question, but we're looking, and we typically think of Accenture given your scale as sort of a bellwether for the industry, and we're looking at kind of historical times in history when we've seen this bifurcation between IT spending and GDP. And you're running kind of flattish on revenues which is very impressive, given that GDP is running down mid to high single digits. And those times in history have always been when there's been like a really big disruption on the technology side in the internet, personal computers, whatnot. Do you feel like, and this is again a question 'cause I know you're in client meetings all day every day, do you feel like the shift to digital happening right now because of the pandemic is kind of similar to those situations and that we're seeing sort of that level of dislocation or change at the enterprise level in terms of their investments in technology?

Julie Sweet

Yes, and Lisa, that's exactly what's happening because, remember, before the crisis, there was exponential technology change. I mean just in January, we were talking about the big inflection point. Remember, it was back in 2013 that we first said every business is a digital business. So that was happening pre-COVID. What COVID's done, we thought it would take a decade. It's now shortened to what we think is more like five years. That's why we announced Accenture Cloud First last week, because we think this is right now the once in a digital era moment where we are rapidly moving to a complete replatforming of global business. It is hugely significant and that's why, having invested since 2014, when we first created digital in these capabilities, is what's helping us as you say, do so well in this incredibly difficult, challenging macro environment.

Operator

We'll go next to the line of Jason Kupferberg of Bank of America, please go ahead.

Jason Kupferberg

Yeah, good morning, guys. I just had kind of a two-part question, so maybe I'll ask it up-front. Just if we look at the growth in the New here in Q4, it was up low single digits and it was less of a premium in the growth rate there relative to the overall corporate growth than we saw last quarter. So just wanted to get a sense of whether or not that was in line with your expectations? And then can you just more broadly comment like across Consulting and Outsourcing, what you're seeing in terms of the pace of converting bookings to revenue and how that's factoring into your thought process, especially for the outlook in the first half of fiscal '21? Thank you.

KC McClure

Yeah, hi, Jason, nice to hear from you. Let me cover the first question. In terms of the growth of the New, so it did hold up very well and it really came in as we had expected. So remember, the New now is 70% of our business. And when we talked about the New, and you remember this well when we put this in, the point of it really was to make sure that we were resilient in the pace of change. And if you go through and look back at what we did in 2015, where it was one-third of the business, it's now 70% of our business. And that really has provided us with a position of strength in which we were able then to – when we talked about our new growth model on March 1st, that we embedded digital everywhere. So that's all now the core of our business. So we did come in where we expected it to be and overall, we feel very good about our positioning in the New.

So the second question around how are things kind of bleeding into – I take your question as more, how are our bookings bleeding into our revenue? So let me just cover that in terms of maybe first looking at our bookings in terms of the mix. So if you look at the mix of what we're selling, which was very strong in the fourth quarter, \$14 billion of bookings, very strong in Tech, very strong in Operations and I mentioned lower bookings in Strategy & Consulting, which we expected.

So given the lower percentage of the mix of our bookings for Strategy & Consulting and as you know, they tend to be shorter. The overall duration of our bookings is a little bit longer. So when you think about our revenue and our bookings and when it's going to start coming into revenue, I think it's important to really take a look at what's been happening in our business since COVID hit. So when we talked about, our business was really impacted and we hit our lows in April and May, and we were very pleased that in Q4, we improved from those lows and we came in at where we expected within our guidance range.

We also, Jason, have that 2% headwind from reimbursable revenue. So that's also, it has a 3% impact in Consulting. So that's also very unique and unusual to this situation. And the third thing just to continue to remember is the dynamics that we saw, and we talked in Q3, about the higher, the more impacted industries, being where we've got 20%, feeling a little bit more pressure on growth. That played out very similar in Q4 and we see that playing out very similar in the beginning part of H1 and the year. But we will build back our business in Q1 to Q2 based on our guided range that we provided.

So just again to be very clear. The guided range for Q1 of negative 3 to 0, implies stability from the growth, the build-back that we had in Q4, stability at the bottom end and improvement anywhere else in the range, and we continue to see that build happening in Q2 through the first half of the year.

Jason Kupferberg

Okay, thank you.

Operator

Thank you. We'll go next to the line of Bryan Keane of Deutsche Bank, please go ahead.

Bryan Keane

Hi, good morning. I had kind of a similar question and so, let me ask it a different way. The dichotomy between strong bookings up 9% in Q4, but revenues dropping down 1% on constant-currency, that gap is the biggest I recall, in the company's history, as bookings are so strong, but it doesn't quite translate to revenue. And other factors I'm thinking about are potentially pricing and were there any cancellations? And then maybe there's a high amount of renewals in there. Just thinking about for the quarter itself, the dichotomy, maybe you can comment on that?

KC McClure

Yeah, and let me just take, Bryan, I hope you're doing well, it's good to talk to you. I'm just going to take your question and I want to just talk about connecting the point of, okay, bookings and the top-line revenue growth. So I talked a little bit about the duration when I was talking with Jason on his question. So let me round it out by just kind of stepping back and looking at how we see all of these bookings connecting to revenue growth.

So I did touch on already what happened in Q3 and how you build back from April and May in Q4. And I've touched quite a bit on H1, how we see that playing out, where we're going to continue to build back in our business. So you're going to see those bookings, Bryan, start coming back into Q1 and Q2. Although our growth rates are going to be in a similar range, we are building back our business. But let me just talk a little bit about the second half because it's going to get a little more to probably your question on bookings.

So we do see a different growth dynamic in the second half of fiscal '21 and we expect to reconnect with higher growth. And when we say higher growth, at the bottom end of our range, that's high single digits, and at the top end, it's low double digits. And there are really four main drivers that we see for connecting with this higher level of growth in the back half.

So the first assumption that we have is, we do expect some improvement in the macro economic environment, so we don't assume another macroeconomic shock. The second thing that we see, and this gets to your question, is we will see more of the benefit from the significant

transformation deals that we sold over the last few quarters, in the back half of the year. But then the third point is, at the same time, that's when we expect Strategy & Consulting to reconnect with growth. I think Julie gave just terrific color on why it is that we see that coming back in the second half.

And then the fourth point is that we will have in the back half of the year, as all of you know, the benefit of an easier compare. And with that, I just want to point out a couple things. We're going to anniversary the reimbursable revenue headwind, so that's been 2% in the first half of the year.

But not only will we anniversary that, but we have adjusted to this new reality of less travel, as have our clients. So, of course, we are meeting with clients and, yes, we are returning to some client sites, but our H2 revenue assumption does not include a significant increase in travel. So, along with a 2% inorganic contribution for the year, which aligns to about \$1.7 billion in acquisition spend, that gives you kind of the full picture of how we shaped our guidance, how the bookings are going to come in, when they're going to come in and drive our top-line growth. And based on the current environment, while I'm going to continue to say for quarter one and for the full fiscal '21, that all of our range is in play, we will connect with a strong level of growth in H2. So you can consider that if you look at the impact of this, and Julie talked about turning the page, the pandemic, it was really an H2 of FY20 impact on our business, we're building back up in H1 in fiscal year '21, and we're going to connect with growth that we believe is a strong level of growth as characterized by, at least high single digits in the second half of the year, which is implied in the low end of our guidance.

Bryan Keane

Okay, great, super helpful. Stay healthy.

KC McClure

You too, thanks, Bryan.

Operator

Thank you. Our next question will come from the line of Ashwin Shirvaikar of Citi, please go ahead.

Ashwin Shirvaikar

Thanks. Hi Julie, hi KC. Good results and comments, pretty good and consistent with what we essentially said. And thank you for the clarification with regards to the trajectory. I just want to put maybe a couple of final points on it, if you don't mind. So you're essentially saying on one of those elements, the step-up in demand for the New, you're already seeing in terms of conversations, bookings, pipeline building, all of that. The need of it can potentially basically kick in when budgets are nailed down by your clients next calendar year because it just takes time for large enterprises to move along a plan to do something in 5 to 7 years, to do it in 3 to 5 years, right? And any clarification on that is ... consultants traveling on projects with clients, you do not expect that to come back? Is that more of a fiscal '21 thing, or is that just like the new reality?

KC McClure

Yeah, so let me take just this last question and a point on the first question, and then I'm going to hand it over to Julie.

So maybe, a point on your first question, so let me talk about how we see demand in terms of our pipeline and bookings in FY21. So we have a strong pipeline coming into the year, even after doing the \$14 billion of bookings in Q4. And just so as we look at how that's going to play out over the year, we do see Q1 being a little bit lighter and building throughout the year, which is our typical pattern.

And then on the last point, what I would say is, I just want to be clear on the assumption that I've made, that we have in revenue in the back half of the year. We've been talking about this revenue headwind from travel. So I just wanted to be really clear about the assumption that I'm making in revenue, that we are not assuming an uplift in the back half of the year.

Julie Sweet

Yeah, which means, of course, H1, we've still got the headwind because of the compare, which sunsets. But we're not saying, hey, everyone's going to get on ... we're going to get an uplift. It could be an upside, right.

But just on the demand side, you do have it right, Ashwin, in that what's happening right now is you've got certain things we're doing immediately, and then you have these bigger conversations that we're doing. That's how you got 17 clients last quarter. We're continuing to shape a lot of these bigger things. You take like supply chain, for example. And with one client, they needed immediate forecasting help because it's a pharma client that had to get PPE. So we worked quickly with SAP to put in integrated business planning, help forecasting, decrease critical shortages, while we're talking about a broader transformation of supply chains.

You know, same thing for a leading health and personal care company. They needed a transportation management system, which we partnered with Blue Yonder to put in, to immediately address the issues about getting goods different places. But we're talking about shaping an entire transformation of the supply chain to build in the resilience, get the data and the analytics.

And that's what we're doing kind of everywhere, where we have the agility to quickly, and by the way, the critical ecosystem partnerships to do that, while at the same we're shaping the larger conversations. That's happening in cloud as well. That's why we're doing Accenture Cloud First. We're oftentimes doing some immediate things, but we're shaping these bigger transformations, working with the public, hyperscalers on the hybrid cloud, working with the hyperscalers as well as the HPE, VMware, Red Hat, Ciscos of the world who are incredibly important partners as we shape this.

Ashwin Shirvaikar

Right. And then the second question on cash flow. It's solid in the quarter, it will continue to be, projections look pretty good for next year. And I know cash flow has always been a strong point for Accenture, but these levels of cash conversion are still quite impressive. So I had to ask has something changed or is it perhaps related to single factors like lower variable comp? Is it sustainable at this level?

KC McClure

Thanks for the question on free cash flow. You're right. I mean we had record free cash flow of \$7.6 billion on the year, and it surpassed even our expectations for the year. And why is that? Really it's due to just stellar billing and collections this year. So you know we have industry-leading DSO. You know us well. So we're usually either around 40 days, 41 days. We closed at

35 days, which is, we haven't seen those levels since fiscal 2015. And we did all that during a liquidity crisis, during the pandemic. So I think it's just very impressive and it just goes to the rigor and discipline that our team has on how we run the business. And that was a 1.5 free cash flow to net income ratio. So you're used to how we do guide free cash flow. You know how strong we perform and it's typical for the bottom end of our range to be a decline.

And what you see this year is that we have all of our range is a decline over what we did last year and I just want to give you some just context in this. As you know, when we go back to what is still industry-leading DSO, we've added at least five days to get back into 40 days of DSO. The way free cash flow works is, it's that change of five days, and that's almost a billion dollars, 800 million plus, of a change in free cash flow, just getting ourselves back to that level.

So there's nothing other than just stellar free cash flow this year and going back to what is still superior cash management next year.

Ashwin Shirvaikar

Thank you.

Operator

Thank you. We'll go next to the line of James Faucette of Morgan Stanley. Please go ahead.

James Faucette

Great, thank you very much. Just two quick questions from me. First, we've talked a lot about the engagement with customers and what they're looking for from Accenture, but I wonder if you could provide any color as to what we're seeing in terms of decision cycles and times around those, if those are seeing any improvement, etc.? And my second question is related to inorganic contribution. I think you mentioned that you're expecting some level of inorganic contribution as built into your guidance. Can you just, once again, clarify what that looks like? And I guess more importantly, as we think about all the change and the type of work you're doing for your clients, should we expect that level of inorganic contribution to persist into the future beyond fiscal year '21? Thanks a lot.

KC McClure

So, thanks for the question. So I'll just take the, clarify and confirm that for next year, we do have a 2% inorganic revenue contribution factored into our guidance with up to \$1.7 billion of spend. You know, we won't, don't guide into future years in terms of what we're going to do, but obviously V&A is a key part of our capital allocation. We have no planned changes at all to our capital allocation approach. And I'll hand it over to Julie and she can talk a little bit about any other color.

Julie Sweet

Yeah, look, on the decision-making, what's happening is what you'd expect to happen. Everyone had to make really fast decisions in how to navigate the crisis. So there are some things that are happening at lightning speed, right. When you have to figure out your supply chain or get up on Teams fast, you do that. We've seen some acceleration in the transformation deals because they're like, we got to move faster to kind of get to that. And you have other places where they've slowed down things, clients where we had three things teed up and they're like let's do this one and then let's wait and see on these others.

And so, I would just say it's very contextual right now and it varies also by industry and, of course, we're now going into kind of budgets as you normally do in the fall season. So we'll see how that plays out as well.

Angie Park

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

Operator

Thank you. And that will come from the line of Bryan Bergin of Cowen, please go ahead.

Bryan Bergin

Good morning, thank you. I just got one here for you. So on margin, how should we be thinking about your comfort level in your typical margin expansion range? And can you also comment on how work-from-home implications may play into that?

KC McClure

Yeah, so thanks for the question. So, obviously, you know one of our key financial imperatives is to expand – give you modest margin expansion while investing at scale in our business and in our people. And we did this, Bryan, even in fiscal year '20 with lower ranges of revenue growth. And so, we feel comfortable that we can continue to create the flexibility in the investments, to do our investments in talent, to do the investments in the business. Julie talked quite a bit about how excited we are with Cloud First. So I would say it's the normal rigor and discipline that we need to bring to our business to create that margin capacity to invest back while keeping within our 10 to 30 basis points of expansion.

Julie Sweet

Yeah, and on the work from home, I talked about the new reality and we're going to be working differently, but it's going to be constantly evolving. So, for example, we've got about [1,500] [corrected] clients worldwide where our people are back at the clients. We're encouraging our people to come into the offices with respect to doing collaboration. We're back to approving travel. Now, it's massively restricted because you're not going to go someplace where you're quarantining. We've got some people who have child care issues, who've got health issues and that is the reality. And so, we're going to continue to navigate that and this, of course, is where we already were so remote that we're really good at being able to navigate that, but that's all about the new reality.

Bryan Bergin

Okay, thanks. And, KC, you said 2% inorganic for fiscal '21, was that 1% or 2% in fiscal '20 as well?

KC McClure

Yeah, it was 2% in fiscal '20.

Bryan Bergin

Okay, great, thank you.

Julie Sweet

We are excited to turn the page and deliver for our clients, people, shareholders, ecosystem partners and communities in fiscal year '21. We call this shared success, and it is a mindset we strive to live every day.

Thank you to our people and leaders for how you come together to deliver on these commitments and shared success.

And a special thank you to our shareholders, for your continued trust and support. Be well everyone, and thank you for joining.