

Accenture

1st Quarter Fiscal 2021 Conference Call

Conference Call Transcript

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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 2021 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 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 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 on 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

Today, we are very pleased to announce strong financial results for our first quarter. I will begin by thanking our 514,000 people for their hard work and dedication to delivering value for our clients, which is what these results represent.

Last quarter I shared that as we began FY21, we were turning a page, no longer navigating a crisis but facing a new reality with a laser focus on delivering value to our clients at this time of great need and on returning to pre-COVID growth rates by the second half of our fiscal year. I also shared how we began fiscal year '21 stronger than pre-crisis.

Our results in Q1 make clear how we have strengthened our market position, as well as our ability to pivot our business with agility. Not only have we delivered a strong quarter, but we took exciting new actions to continue to strengthen our market position for FY21 and the future.

Let's start with our financial results.

- We delivered revenue growth of 2% in local currency – well ahead of our guidance, with broad-based improvement across the globe. We continue to extend our leadership position, with our growth estimated over the trailing 4 quarters to be more than 4 times the market, which refers to our basket of publicly traded companies.
- We delivered exceptionally strong new bookings of \$12.9 billion, a 25% increase over Q1 last year, including 16 clients with over \$100 million in bookings.
- We continued to invest substantially in our business, including closing 10 acquisitions this quarter in strategic areas such as cloud, intelligent operations and Industry X; and
- As KC will walk through, we delivered strong profitability and returned substantial cash to shareholders.

Now let me highlight the actions we have taken in Q1 to better serve our clients, attract the best talent and extend our leadership as a Responsible Business and trusted partner:

- We created Accenture Cloud First, with a planned \$3 billion three-year investment, to help clients in what has become a once in a digital era re-platforming of global business in the cloud;
- We launched our new purpose, our growth strategy to deliver 360-degree value to our clients, and our largest and most significant new brand campaign in a decade;
- In our annual cycle in December, we promoted 605 managing directors, with a record 39% women, and I appointed 63 senior managing directors, including a record 29% women. I am excited to announce that we met our previous goal of 25% women managing directors globally by the end of 2020, and have raised the bar again, setting a new goal of 30% by the end of 2025. With 45% women overall, we are on track to meet our goal of 50/50 gender equality by 2025;
- We set external goals in the U.S., U.K. and South Africa to achieve greater race and ethnicity representation overall, and among managing directors in these countries, by 2025.
- We remain the only major professional services company in our industry around the world, public or private, to set these types of external goals, and to have our level of transparency. We believe our diversity and commitment to inclusion and equality have been, and will continue to be, critical to our success and a differentiator in attracting the best talent; and
- Building on our long-standing and well-recognized commitment to the environment, we announced industry-leading goals for 2025 to achieve net-zero emissions, move to zero waste and plan for water risk.

As you can see, we have been busy moving forward in our new reality.

KC, over to you ...

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 overall results in the first quarter, which exceeded our expectations and represent a positive first step to achieving our full-year objectives. The focused execution of our strategy continues to extend our leadership position in the marketplace as we deliver significant value to our clients and our shareholders in an uncertain and volatile environment.

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

- Revenues grew 2% in local currency and continue to include a reduction of approximately 2 percentage points from a decline in revenues from reimbursable travel costs. Q1 revenues were more than \$200 million above our guided range, driven by broad-based over-delivery across markets, services and industries. We also continued to extend our leadership position with growth significantly above the market.
- The diversity of our business continues to serve us well, and the industry trends remain consistent with the last few quarters. Approximately 50% of our revenues came from seven industries that were less impacted by the pandemic and in aggregate continued to grow high single-digits, with continued double-digit growth in Public Service, Software & Platforms, and Life Sciences. At the same time, we saw continued pressure, but at a more moderate level, from clients in highly impacted industries which include Travel, Energy, High Tech including Aerospace & Defense, Retail and Industrial. While performance varied, this group represents over 20% of our revenues and declined low double-digits.
- Operating margin was 16.1% for the quarter, an increase of 50 basis points. We delivered 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 and events. And, we delivered very strong EPS of \$2.17, up 8% over fiscal '20 after adjusting both years for gains on an investment.
- And, finally, we delivered significant free cash flow of \$1.5 billion and returned \$1.3 billion to shareholders through repurchases and dividends. We also invested approximately \$500 million in acquisitions and we expect to invest at least \$1.7 billion in acquisitions this fiscal year.

With those high-level comments, let me turn to some of the details starting with new bookings.

New bookings were \$12.9 billion for the quarter, reflecting an overall book to bill of 1.1.

- Consulting bookings were \$6.6 billion, with a book-to-bill of 1.0.
- Outsourcing bookings were \$6.3 billion, with a book-to-bill of 1.2.

We were very pleased with our bookings this quarter, which grew 25% driven by both Technology Services and Operations. We were also pleased with the strength of our bookings

in Strategy & Consulting, with a book-to-bill of 1.1. Looking forward, we continue to feel very good about our pipeline.

Turning now to revenues...

Revenues for the quarter were \$11.8 billion... a 4% increase in USD and 2% in local currency, including a reduction of approximately 2% from a decline in revenues from reimbursable travel costs.

- Consulting revenues for the quarter were \$6.3 billion — a decline of 1% in USD and a decline of 2% in local currency, including a reduction of approximately 3% from a decline in revenues from reimbursable travel costs.
- Outsourcing revenues were \$5.4 billion — up 9% in USD and 8% in local currency.

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

Turning to our geographic markets... the industry dynamics that I mentioned earlier continued to play out in a similar manner across all three markets....

- In North America, revenue growth was 4% in local currency.
- In Europe, revenue declined 1% in local currency. We saw mid single-digit growth in Italy, with the U.K. improving to flat.
- In Growth Markets, we delivered 3% revenue growth in local currency led by high single-digit growth in both Japan and Australia.

Moving down the income statement...

Gross margin for the quarter was 33.1%, compared with 32.1% for the same period last year.

Sales and marketing expense for the quarter was 10.4%, compared with 10.5% for the first quarter last year.

General and administrative expense was 6.6% compared to 6.1% for the same quarter last year.

Operating income was \$1.9 billion for the first quarter, reflecting a 16.1% operating margin, up 50 basis points compared with Q1 last year.

As a reminder, last year in fiscal '20, we recognized an investment gain which impacted our tax rate and increased EPS by \$0.08 in the quarter. This year in Q1, we again recognized an investment gain which impacted our tax rate and increased EPS by \$0.15. The following comparisons exclude these impacts and reflect adjusted results.

Our adjusted effective tax rate for the quarter was 23.7%, compared with an adjusted effective tax rate of 23.9% for the first quarter last year.

Adjusted diluted earnings per share were \$2.17, compared with adjusted diluted earnings per share of \$2.01 in the first quarter of last year.

Days Services Outstanding were 38 days, compared to 35 days last quarter and 43 days in Q1 of last year.

Free cash flow for the quarter was \$1.5 billion, resulting from cash generated by operating activities of \$1.6 billion, net of property and equipment additions of \$93 million.

Our cash balance at November 30th was \$8.6 billion, compared with \$8.4 billion at August 31st.

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

In the first quarter, we repurchased or redeemed 3.3 million shares for \$769 million, at an average price of \$229.98 per share. At November 30th, we had approximately [\$5.7 billion] [corrected] of share repurchase authority remaining.

Also, in November, we paid a quarterly cash dividend of \$0.88 per share, for a total of \$558 million. This represents a 10% increase over last year. And, our Board of Directors declared a quarterly cash dividend of \$0.88 per share to be paid on February 12th, a 10% increase over last year.

So, in summary, we were very pleased with our Q1 results and we are off to good start in fiscal '21.

Now let me turn it back to Julie.

Julie Sweet

Thank you, KC.

Let me start with the environment. We saw in Q1 a broad-based increase in demand that is faster than we anticipated 90 days ago. This means that as our clients have the confidence and ability to spend, they are turning to Accenture, but the uncertainty and volatility of the biggest health, economic and social crisis in our lifetimes remains, particularly as the world continues to face a deepening health impact pre-widespread vaccination.

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, build resilience and security, adjust their operations and customer engagement to a remote-everything environment and changing expectations, and find new sources of growth.

What is becoming even more clear, however, is that we are in an era of compressed transformation ... in which the winners by industry will be those who are earliest to re-platform their businesses in the cloud, and have the digital core and new ways of working that allows them to continuously improve their operations and find new sources of growth — which for most leading companies is requiring them to simultaneously transform multiple parts of their enterprises and their talent. For the pre-COVID digital leaders, they are racing to widen the gap, and for the digital laggards, they are racing to leapfrog.

We are uniquely positioned to help the leaders and the laggards because of the depth and breadth of our capabilities. We bring the trust, experience, speed and scale that are essential to achieve compressed transformation.

Now let's bring some of these demand trends to life through the lens of our Q1 and look at our own broad-based improvement.

First, re-platforming to the cloud. In FY20, our cloud revenue was approximately \$12 billion, with low double-digit growth, which accelerated in Q1 with significantly higher double-digit growth, driven by Accenture Cloud First.

In fact, across low to highly impacted industries and all geographic markets, we saw strong double-digit growth – the race to re-platform to the cloud and create new business value is clear across all our services.

Our clients need our deep technical and engineering skills and our unmatched set of relationships with the world's leading technology ecosystem companies, which are critical partners to us and to our clients. We were pleased that in Q1, industry analysts recognized us as the leading systems integrator for each of AWS, Azure and Google Cloud Platform, as well as the leading multi-cloud managed services provider.

Fundamental to accelerating our clients' re-platforming in the cloud, however, are our leading Strategy & Consulting capabilities, which give us the industry and functional insights to move rapidly and achieve early business value. For example,

- We are working with Takeda, a global, values-based, R&D-driven biopharmaceutical leader, to modernize their technology platforms, including moving 80% of applications to the cloud, accelerate data services and establish an internal engine for innovation while equipping employees with new skills and ways of working and reducing their carbon footprint. The business impact is illustrated by the plans for Takeda's Plasma-Derived Therapies Business Unit, which is harnessing the power of the cloud and these data services to create state of the art, digitally connected donation centers and modernize the donor experience, optimizing the plasma collection process and contributing to the goal of increasing plasma collection and manufacturing by at least 65% by 2024.
- We are working with the Norwegian Health Net to create a Health Analytics Platform which is using the power of the cloud to analyze and interpret data and ultimately improve patient outcomes – by reducing research turnaround times and access to data from months to a matter of minutes or days.
- And we are working with Generali, a major player in the global insurance industry, to help re-platform approximately 70% of its IT footprint to the cloud ... to improve service quality, innovate and build a set of new cloud-ready core insurance applications for emerging markets, while achieving a sustainable reduction in its total cost of ownership and helping to upskill its workforce.

In Intelligent Platform Services, which returned to low single-digit growth this quarter, we saw building momentum fueled by our clients rotating to software-as-a-service as well as new digital platforms. In a quick trip around the world, we see this compressed transformation playing out — from the rapid transformation of the finance functions of Nickel Bank, a subsidiary of BNP

Paribas and a fast-growing neo-bank in France, with the implementation of leading software-as-a-service and ERP solutions ... to the cloud-based marketing transformation of a global bank with a large U.S. footprint with a SaaS implementation across its world-wide private banking network ... to one of the largest implementations in the chemicals industry of a modern digital ERP system hosted on the cloud for Indorama Ventures, a world-class chemicals company with global operations headquartered in Asia, that will provide a single source of information globally and cloud-based solutions to enhance its operations, employee-development capabilities and customer and supplier experiences.

So, that's the cloud... now let's turn to digitizing operations across the enterprise....

In Operations, which returned to double-digit growth this quarter, we are helping our clients transform by digitizing their operations with our SynOps platform, increasing agility and reducing costs. Operations is a service that enables us to continue diversifying our value to clients by expanding across functions and industries. We have an unmatched global footprint, ability to invest and innovation engine powered by the broader Accenture.

We were excited to welcome to the Accenture family this quarter N3, an Atlanta-based B2B sales firm with more than 2,000 employees that combines specialized talent in AI and machine learning to enable smarter, more efficient sales interactions, and drive sales growth in virtual environments.

- The power of Accenture's breadth and depth comes together at Halliburton, a leading provider of products and services to the energy industry, and a leader in driving true enterprise-wide transformation enabled by digital and technology. Last quarter, we shared how we are helping Halliburton move to cloud-based digital platforms. This quarter, we announced that we are teaming with Halliburton to accelerate its digital supply chain transformation and support digitization within Halliburton's manufacturing function to improve service levels and business outcomes. We will leverage SynOps, which we already use as part of Halliburton's digital transformation of its finance and accounting functions, and our strategy and consulting expertise.

In Industry X, we are digitizing manufacturing and operations and creating intelligent products and platforms. In fiscal year '20, Industry X was approximately \$3 billion, and grew low double-digits, which has continued in Q1. We see COVID deepening the need to transform manufacturing in a contact-less world, with disrupted supply chains and greater cost pressures.

- One of our latest wins was at CNH Industrial, the manufacturer of capital goods across the agriculture, construction equipment and commercial vehicle sectors, where we are improving the global operating model to develop smart, connected products and services that will grow revenue, while building a digitally enabled workforce, and enhancing security and sustainability.

Finally, let's look at the trends around new ways of engaging customers, patients, citizens and employees...

In Interactive, which is all about the business of experience – the crisis had a significant impact due to severe disruptions in industries like travel and retail, and due to our clients being focused on shoring up their businesses, rather than the next generation of experiences. This quarter, we saw building momentum, with a return to [mid single-digit] [corrected] growth from a low single-

digit decline in H2 of FY20, as clients focus on creating new experiences in the new environment.

- For example, Accenture Federal Services is working with the Federal Retirement Thrift Investment Board to reimagine retirement services for the digital age and improve the customer experience for a retirement savings plan serving 6.1 million civilian employees and members of the armed services, with over \$644 billion in assets.

I want to take a moment to talk about another bold move we made this quarter – in October, we simultaneously launched a new purpose, our growth strategy to deliver 360-degree value to our clients, and a new brand campaign, created by our own Droga5 team that joined our family in 2019.

Our new purpose is to deliver on the promise of technology and human ingenuity. Our purpose is what we are uniquely able to do and our growth strategy is our action plan to bring this purpose to life.

Our strategy to deliver 360-degree value to our clients is a direct response to the rising demand we see for talent transformation and help achieving responsible business goals.

We define 360-degree value as delivering the financial business case, experiences and unique value a client may be seeking, and striving where possible, to partner with our clients to achieve greater progress on inclusion and diversity, reskill their employees and achieve their sustainability goals.

At the heart of this strategy is embedding Responsible Business by design into our work for clients in addition to our own operations.

Our new brand, “Let there be Change,” captures our purpose and the depth and breadth of Accenture’s expertise. Together, our purpose, strategy and brand better reflect Accenture’s unique role in helping companies reimagine and rebuild differently for the benefit of all.

Over to you KC for a look ahead...

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 the recovery, as well as those described in our most recent quarterly filings.

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

For the second quarter of fiscal '21, we expect revenue to be in the range of \$11.55 - \$11.95 billion. This assumes the impact of FX will be about positive 3% compared to the second quarter of fiscal '20 and reflects an estimated 1% to 4% growth in local currency and includes a reduction of approximately 2 percentage points from a decline in revenue from reimbursable travel costs.

The entire range for Q2 reflects the continued build back of our business over Q1.

For the full fiscal year '21...

Based upon how the rates have been trending over the last few weeks, we now expect the impact of FX on our results in USD will be approximately positive 3% compared to fiscal '20.

For the full fiscal '21, we now expect our revenue to be in the range of 4% to 6% 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 second half of the year.

For operating margin, we continue to expect fiscal year '21 to be 14.8% to 15.0%, a 10 to 30 basis-point expansion over fiscal '20 results.

We continue to expect our annual adjusted 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 now expect our full-year diluted EPS for fiscal '21 to be in the range of \$8.17 to \$8.40. We now expect adjusted full-year diluted EPS to be in the range of \$8.02 to \$8.25, or 8% to 11% growth over adjusted fiscal '20 results.

For the full fiscal '21, we now expect operating cash flow to be in the range of \$6.65 to \$7.15 billion, property and equipment additions to be approximately \$650 million, and free cash flow to be in the range of \$6.0 to \$6.5 billion. Our free cash flow guidance continues to reflect a very strong free cash flow to net income ratio of 1.1 to 1.2.

Finally, we continue to expect to return at least \$5.3 billion through dividends and share repurchases as we remain committed to returning a substantial portion of cash to our shareholders.

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

QUESTIONS AND ANSWERS

Angie Park

Thanks, KC.

I would ask that you each keep to one question and a follow-up to allow as many participants as possible to ask a question.

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 pressing the numbers. Once again if you have a question, please press 1 and then 0 at this time.

And one moment please for your first question. Your first question comes from the line of Lisa Ellis from MoffettNathanson, please go ahead.

Lisa Ellis

Good morning, guys, great to hear all of you and happy holidays. I would just ask my two right up front. Looking at the utilization number of 93% in the quarter, I peeked back, and that is the highest number you've reported in more than 10 years. So, two questions, one more strategic and one more kind of numbers-related on that. I guess, first, can utilization be structurally higher now with the shift to remote work? And so, we should expect these kinds of levels going forward or are you kind of getting to the point that you're labor-constrained and you're going to be ramping hiring and that number will come down a bit? That's more like a strategic question.

And then, maybe for KC, was higher utilization the primary driver of the 100-basis point increase in gross margins or is that also being affected by the reduction in travel costs? Thank you.

KC McClure

Okay, hi, Lisa, thanks for your question. Happy holidays to you too. So maybe I'll start with your second question first. Just for gross margin, so we did have expansion in gross margin and there are a few drivers for that. The first is contract profitability was up this quarter. And in contract profitability, we did benefit from lower travel, so that does help our contract profitability overall. So that is the first thing that I would say benefited our gross margin.

And you do see that the fact that we have higher utilization, also does help our gross margin as well. So both of those points were included in drivers of our gross margin.

And when you look at utilization, we did have a very high productivity this quarter. It did click up in parts and that was pretty broad-based and that was also driven by our overdelivery of Q1 revenue. We did continue to recruit throughout the summer and, obviously, into this quarter. You can see that our headcount is up sequentially. And so, we don't see any issues meeting demand and attracting talent.

And to your point on is there a structural change from working remotely, the answer is really no. We were just able to get more productivity out of all of our groups this quarter. And looking forward, we do think that's going to kind of ease back into kind of a more normal range, which still is very high productivity, but not continuing at these levels.

Lisa Ellis

Terrific, thank you.

Operator

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

Tien-tsin Huang

Hey, thanks, good morning, good results here. I want to just ask about the outlook here and what's changed over the last 90 days. Looking at revenue, you're up 200 million over your guidance, you overcame low double-digit declines in Strategy & Consulting. From a macro standpoint, we got what, vaccines have been approved and cases are up, but your bookings are strong again. So I'm just trying to think here, you seem really well set up for the second half to be quite strong, even if Strategy & Consulting comes back slowly. So do you feel more confident

in the outlook for Strategy & Consulting or is the composition of work just changing versus what you thought maybe 90 days ago? Any thoughts on that?

KC McClure

Yeah, so let me just today talk a little bit about what drove our overperformance in Q1 and how that impacts our view of Q2 and H2, Tien-tsin. So when you look at Q1, we were obviously very pleased with our performance and we had rather significant overdelivery against our expectations. And that was really driven by broad-based overdelivery in all three of our markets, in all of our industry groups, in all of our services. All did a bit better.

And as I mentioned in our script, when you take a look at the industries and the higher impacted industries, which represent over 20% of our revenues, they did improve from Q4 from a decline of mid-teens to low double-digits. And as Julie talked quite a bit about the fact that that was really driven broad-based by our strong demand in cloud. And so, that is an area that performed better than we expected.

But if you also look at the lower impacted industries, which are 50% of our revenue, they continue to grow high single-digits, like Q4, but they actually did improve also within that zone. And so, let me maybe connect this a little bit to how we did our sales this quarter. So we had a very strong start to the year, which you can see in our sales, of 12.9 billion, which is about \$2.5 billion more than what we've done in the last two quarter 1s, the last two fiscal years.

And when you peel that back, Tien-tsin, you can see that it was really driven by all categories of our sales buy, so the large which Julie highlighted that we had 16 clients over \$100 million of sales, but all the way through and significantly driven by an improvement in our smaller deals which came in better than we expected. And you know that can help us with revenue yield in the current quarter.

So when I take a look at that, that's what happened with Q1. And then when you look at that compared to 90 days ago, obviously, that's better. And when you look at it then for Q2, we obviously have a better outlook for Q2 than we did 90 days ago with our 1% to 4% of growth range. Really important to note that all points in that range are an improvement over Q1, so we continue to build back our business from the lows of H2. And we would be really pleased with anywhere that we land in that range.

Now, when you look at the second half of the year, we haven't changed our view for the second half of the year from 90 days ago. And just to be very specific, we still see that we would have high single-digits to low double-digit growth in the back half of the year. And just as a reminder, the four factors that we've talked about last quarter that are going to drive that remain the same.

And just very briefly, they are, first, that we continue to expect an improvement in the macroeconomic environment. We don't see another – we're not anticipating another macroeconomic shock that's built into our guidance. We expect to see more of a benefit from the significant transformational deals that we sold last year. And at the same time, to your question, we do expect Strategy & Consulting to reconnect with growth. And our performance in Q1 and our outlook for Q2 do encourage us even more on that statement this quarter.

And the fourth thing is that we have the benefit of an easier compare that, obviously, remains the same. And we are also still going to anniversary the reimbursable revenue headwind. That's 2% the first half of the year and that won't be a headwind in the back half of the year. So, of

course, we're still meeting with our clients, you can see that by the fact that we were able to book \$27 billion in the last two quarters, but we are not planning on having significant increases in revenue related to travel in the back half of the year.

So, hopefully, that gives you a sense of how we see the business compared to what has stayed the same now from 90 days ago, which is our outlook in H2, but obviously, we're very pleased with the improvement and performance in Q1 and outlook for Q2 that we had 90 days ago.

Julie Sweet

Yeah, and Tien-tsin, let me just kind of give you a little more color from the clients' perspective because – and this is what I talked a little bit about in my script. Just remember, pre-COVID, we said we were in the early innings of transformation, we're at the beginning of the decade, it'd be the enterprise-wide, right. COVID hits, technology becomes the lifeline and you really see companies understanding kind of the two truths of our world. There is every business is now a technology business, and exponential technology change is going to continue.

And now, it's about the speed. And this is why we're seeing what I'm calling compressed transformation where you continue to see companies say, we are going to take on this transformation more broadly. So look at the example of Takeda. They're both moving to the cloud, improving their data and making sure that they're getting near-term business value.

You take a Halliburton, cloud, finance, supply chain, so there's this speed of change and we see that in the confidence, we're 9 months in now. The first part of the crisis, people were getting their footing, getting back up and running. And it's interesting, we did some research in July across 10 markets and nearly 80% of the executives that we surveyed said that they were planning on investing in digital transformation and that was up from 50% in May. And we're continuing just to see this recognition of the need to get there faster.

And then, what's important to understand is that all of this is happening, though, in the context of cost pressures, changing expectations. And this is where a decade, and in some cases, multiple decades of investment from Accenture has put us in a very unique position because no other company in our industry can simultaneously do operations that help a company redo their supply chain and a finance function and reduce costs and digitalize, at the same time we're helping them migrate to the cloud and give them that view, which, because all of this has interdependencies. You want to get end-to-end process change. And we have literally been building these capabilities for years and years. And this is where the scale and the breadth matter.

Tien-tsin Huang

That's very clear. Appreciate the complete answer, guys, here. And it seems like the outlook is set up pretty well here. Thank you.

Operator

Your next question comes from the line of Matthew O'Neill from Goldman Sachs, please go ahead.

Matthew O'Neill

Yes, thank you so much for taking my question. I was hoping we could drill down a little bit deeper into Accenture Cloud First. I think it was just 90 days since the formal announcement. Curious understanding a lot of the sort of anecdotes and the prepared remarks around Takeda,

Halliburton, etc., but where are you seeing the most immediate needs to deploy the 3 billion that you identified for investment, earliest and first? And sort of nearing that where the greatest demand is coming from the client side, understanding there's kind of a broad-based, I think, COVID-driven catalyst to potentially get off the fence and move one's business to become fully digital, cloud, etc., etc.?

Julie Sweet

Sure, so, Matthew, thanks for the question. So let's just first start, why are companies having to accelerate faster to the cloud. And there's a few clear reasons. So, first of all, there's a cost pressure because when they move to the cloud, there's immediate savings just in the migration and there's an obvious need to get that kind of savings.

Second, the cloud is really important for resilience and security. And in this current environment, in particular, you can see why that matters. The crisis really exposed the vulnerabilities of a lot of the on-premise IT estates and that's been compounded, of course, by the expansion of the threat surface through more remote working. And so, the resilience and security of the cloud is also an immediate driver as to the need to do that.

But what I would say is probably most important in really the rapid acceleration is the need for the power of the cloud to enable the data-driven transformations. So you saw that in the example that we gave with Takeda, where they're changing the customer experience which requires near real-time access to data in order to personalize and to be able to actually do that. And what I think is very unique, I know it's very unique about Accenture, is that this is where our Strategy & Consulting capabilities are so important, because the reason to go to the cloud is not simply cost and resilience and security, it's about the business value. And here's how we're helping clients get early business value and you have to deeply understand the industry, the patient, the customer and also, what data is valuable among all of the data and which workloads go first.

And so, it really is driven by all of these things at once, which is why our capabilities around change management, around talent transformation and leadership are important because, by the way, everybody wants to go hire cloud talent, and there's not going to be enough available. So our ability to reskill, which you saw in each of these examples that we gave in the script, like Generali and Takeda, is also critical.

So that's sort of the big picture. Now when you think about where we're going to do investment, we talked about we did 10 acquisitions this quarter, four of them were in cloud. They were in each of our three markets and they were about building scale, for the most part, in more markets. And so, as we think about the acquisition strategy which will be a big component of the \$3 billion, it's about building scale in markets around the world, as well as acquiring niche capabilities.

The second big area of that \$3 billion investment, though, is creating more and more of the assets that will allow our clients to move quickly. Everything from the myNav asset that we've talked about that does a fast diagnostic with benchmarks to help clients figure out what kind of a strategy to have and how to get value, to the migrating Advisor that helps you figure out the reduction in carbon, to the industry blueprints that we're creating and the solutions that are repeatable like in digital manufacturing on the cloud.

So this will be an important part of our continued investment. And, again, it really comes right back to no other company has both these deep engineering and infrastructure skills, the deep relationships and then, the Strategy & Consulting capabilities to actually move industries to the cloud to create business value solutions. And you don't build that overnight, right, we have been building our Strategy & Consulting business for decades. We have been an early adopter for cloud for decades. And let's not forget, we're our own best credential when it comes to all of these capabilities.

Matthew O'Neill

That's really helpful and interesting. I guess as a quick follow-up, I was just curious, you mentioned in the script the Droga5 acquisition and more broadly Accenture Interactive, and wondering if there is significant sort of cross-sell and up-sell opportunity as you integrate more assets like a Droga5 and present a more comprehensive suite to both the existing and new clients for things that they might not have maybe originally known or thought of Accenture for first and foremost? Is that a part of the equation here?

Julie Sweet

Absolutely, and when you think about Accenture Interactive, we are doing amazing work, like our own brand and purpose work for ourselves. We are, again, our best credential. But what these capabilities bring is we're actually embedding them in all of our services. Our clients come to us for outcomes and experience is a really important part of it. Again, when you think about the work we're doing with Prudential, that we talked about last quarter, that was fundamentally a different way of engaging with the customer. Takeda, a different way of engaging with the donor. The researchers in the Norway example, about how they're going to engage, we are embedding this experience and how to do that in all of our work.

And so, that's why I often talk about – I know you all look at our services separately, our four services, our clients look at our outcomes. And what differentiates us is our ability to embed the business of experience across Accenture, as well as going to market. Of course, like a Droga5 that continues to do amazing pure work in terms of brand, for example.

Matthew O'Neill

Thanks, so much, really helpful thinking about that in the context of sort of experience and outcomes. I'll jump back in the queue.

Operator

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

Bryan Bergin

Hi, good morning, thank you. I wanted to ask on bookings, was there anything pulled forward in bookings relative to your prior expectation or do you still anticipate a building cadence for the year? And then, can you comment on bookings conversion pace and considering the outperformance you've had the last two quarters, I'm just curious how you're seeing the pace of these larger transformational engagements?

KC McClure

Yeah, thanks. We were really pleased with our bookings, as I mentioned, they did grow 25% and as you just kind of pointed out and I mentioned as well, we did have a stronger Q1 than we have had in the last two years. And if you peel that back, it's really because the demand, again,

which was very broad-based, it was really also driven by cloud, which we've talked a lot about, Industry X, Security, so they're also aligned to our strategic priorities.

If you look at it, what drove this strength in bookings, so again, broad-based. When you look at it by type of work, we have particular strength in Outsourcing, that really was up quite a bit with very strong book-to-bill. But within the 16 clients that we booked over 100 million, they were represented -- what I liked about that -- is by Outsourcing, as well as Consulting-type work. It was a nice mix, and all five of our industry groups were in there, too. So again, it points to very broad-based.

And if you look at the services, again, no surprises, based on cloud, security and Industry X type services, very strong. And I mentioned, and I just want to highlight again, that we are pleased with our progress in Strategy & Consulting, because they had a 1.1 book-to-bill in the quarter.

So, overall, we felt really pleased. And as it relates to kind of what we see ahead, we feel very good about our pipeline. And taking on the question about conversion or revenue yield in bigger deals, we did see that our bookings were strong across all parts of our sales, large, all the way through, but particularly to the smaller deals. And they do yield more revenue in the current quarter, so that's also true.

And then when you look really at our duration, it's not that the duration of the bookings in themselves have changed, it's really more of the services that are in the mix. So as we have more Strategy & Consulting bookings coming online, they obviously tend to be of a shorter duration. So nothing's really changed in the duration of each of our individual services, it's really more in the mix of the bookings within each quarter.

Julie Sweet

Yeah, and so, next quarter, we expect a very nice, very strong quarter in bookings.

Bryan Bergin

Okay. And over the last couple of years, you've had special businesses here that competitors have not that have enabled you to grow faster than the market. I'm thinking about Operations and Interactive specifically as critical growth engines. From here, do you anticipate a rotation of the growth engines? So is Cloud First and Industry X, are those the new engines that you expect to drive above market? I'm just curious how you consider those now relative to competitors that are also heavily investing in those areas and doing so earlier today than they did around Interactive before?

Julie Sweet

Sure, great question. So let me just start with, we have been investing in cloud for a decade, which is very hard to replicate. And so, we start with a \$12 billion business that is growing strong double-digits. So we would expect to continue to take market share there and that in this environment, where you have a rapid acceleration and you're moving mission-critical workloads, we would expect to continue to differentiate because of our decade of experience and our relationships with the world's leading technology ecosystem players. So cloud will continue to be a big trend.

Think about Industry X, and we've talked about this now for some time, kind of the next Accenture Interactive. And as you know, we've been investing in Industry X for some time. The COVID - what we're seeing the early signs of, is that like in other areas, Industry X is, we think,

going to accelerate over the next couple of years. Because that was still a newer part of the enterprise that was being digitized, the manufacturing and operations space. But as we now need to have, they have a lot of health concerns about can you do manufacturing in a more contact-less way, the supply chains have been disrupted. And so, we have said for some time, Industry X is going to be the next growth engine. And the early signs are that is likely to be accelerating as well, so we'll see how that continues to play out.

And remember, Accenture Interactive is an ongoing growth engine. I mean we have three big platforms. You have the move to the cloud, which then has the data and the business value innovation on top. So it's not just moving there, it's everything that comes. And so, that is a, early innings, we're at 20% into the cloud. But it's not just about the move, it's our unique ability to create business value, to access the data and you're seeing that in the examples of what we're doing and it depends on where you are on that journey. So that is an ongoing platform for waves and waves of growth.

The second thing, everything we do around intelligent operations, our Operations business, our ability to move to modern digital platforms, like what we talked about in IPS today. So that, again, provides – we're early innings of the digitization of operations. And then, Accenture Interactive cuts to the business of experience. That's an ongoing thesis in terms of that will always have to continue to evolve. And so, we see that the impact of the COVID crisis, we're starting to move out of that and building momentum. We continue to expect that to be a growth engine. And once again, this is where you can't make up for, quickly, the scale that we've achieved because we've been investing for years in creating these capabilities.

And then, finally, you have this area of Industry X and not to mention security and data, which will all continue to be growing engines for us.

Bryan Bergin

Thank you.

Operator

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

Bryan Keane

Good morning, guys, and congrats on these solid results. I wanted to ask you, on Interactive, just trying to understand the trajectory there, what did it kind of do in the fourth quarter? Did it even turn negative growth and then now, it's at low single, so does it kind of move up from here? I know there's been a lot of questions before around Interactive given, would that business be weaker during kind of the slowdown, and it looks like it's hanging in there. So just curious on the trajectory, where it was last quarter and kind of what you expect it to do throughout the year?

Julie Sweet

Yeah, so in H2, kind of the whole six months, it was a low single-digit decline and now, we're at [mid single-digit] [corrected] growth and it's building momentum. So, for example, we're helping a big European bank with their digital sales, new things. So everyone's now starting to kind of reconnect with new experiences.

Bryan Keane

Got it, got it. And then, just on the other strategic priority, on security, low double-digit growth, is that about the right growth rate for that too, or does that also accelerate as we get into the back half when we see the pick-up in the growth rates?

Julie Sweet

Look, I think on security, we're super-pleased with that double-digit growth. So whether it's going to be low or strong, it'll probably ebb and flow, but the consistency of that double-digit growth in security has been impressive to date and we continue to see that to be the trajectory.

Angie Park

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

Operator

Okay. That question comes from the line of James Faucette from Morgan Stanley, please go ahead.

James Faucette

Thank you very much. I wanted to ask, you mentioned that you have some targets for M&A this year, can you talk a little bit about, from a spend perspective, can you talk a little bit about what you're seeing from a valuation perspective and how we should expect those to contribute to growth in the coming fiscal year or during the current fiscal year and beyond? And what kind of areas you're targeting more specifically?

KC McClure

Yeah, thanks. So in terms of our V&A, we expect to spend at least 1.7 billion, and there's no change to what we've started out with at the beginning of the year of the 2% expectation of additional revenue growth for this year. And it's aligned to really all of our strategic priorities that we went through.

James Faucette

And then, thinking about that and I realize like that's consistent with what you've said before, but I'm just wondering how we should project that then into the future? Is this kind of the right level of acquisitions for Accenture or should we expect that to grow or do you think we're in a peak period? I'm just trying to think about that part of the capital allocations? Thanks.

KC McClure

Yeah, sure. So we've always aimed for around 20% to 25% of our operating cash flow in the capital allocation program to be for V&A, but we've always had the ability, and we continue to have the ability, to do more should any opportunity arise. There's really no change to how we view V&A in our capital allocation. Thanks.

James Faucette

Thanks.

Julie Sweet

Thank you everyone for joining us on today's call.

We are very pleased with our strong start in fiscal '21.

Thank you again to our incredible people across the globe. And thank you to our shareholders for your continued trust.

Best wishes to all for a safe, healthy and joyful holiday season.