

Accenture

2nd Quarter Fiscal 2022 Conference Call

Conference Call Transcript

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CORPORATE PARTICIPANTS

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Angie Park

Thank you, operator, and thanks everyone for joining us today on our second quarter fiscal 2022 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 Chair and Chief Executive Officer, and KC McClure, our Chief Financial Officer.

We hope you've had an opportunity to review the news release we issued a short time ago. Let me quickly outline the agenda for today's call. Julie will begin with an overview of our results, KC will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for the second quarter. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the third quarter and full fiscal year 2022. 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](https://www.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.

I would like to begin by honoring the incredible bravery of the Ukrainian people in the face of the unlawful invasion by Russia and extending our deep sympathy and concern over the horrific losses of life. While these words don't feel adequate to capture what is happening, we are taking actions to help in the small ways we can, which I will share more about later in the call.

Turning now to the quarter, I will start by thanking our almost 700,000 people around the world for your incredible dedication and work to create 360° value for our clients and all our stakeholders. Thank you to our clients who are making bold moves to transform and putting their trust in us to help them. Finally, thank you to our technology ecosystem partners, who we work with every day to innovate and create more value for our clients.

Now a few highlights from the quarter:

- We had record bookings of almost \$20 billion and continued improved pricing, which refers to contract profitability or margin on the work that we sell, across the business, with 36 clients with bookings over \$100 million;
- We had record revenue growth of 28% in local currency, bringing total revenue added through H1 to \$6.2 billion, which is what we added in all of FY21;
- We had EPS growth of 25% year over year with flat operating margin and continued significant investment in our business and our people;
- Our workforce grew by 24,000 people, demonstrating again our ability to attract top talent at the scale needed by our clients;
- We were the top-scoring company on the Bloomberg Gender-Equality Index out of more than 400 organizations globally;
- We were recognized on Ethisphere's World's Most Ethical Companies for the 15th year in a row and by JUST Capital for the 6th consecutive year;
- Our people completed another 9.2 million training hours this quarter;
- And we continued to gain market share, growing more than 3 times the market.

With such an exceptional quarter, I would like to particularly recognize and thank the incredibly strong delivery teams that underlie these results. Our clients know that our commitments are backed by the outstanding work our people do every day, working side-by-side with them—from shaping the future, to building the best systems and platforms, to creating amazing new experiences and brands, to running critical functions for our clients and everything in between.

Before handing over to KC, let me pause to reflect on the current macro environment. It was almost exactly two years ago that we did earnings only 8 days after the pandemic was declared. Then, as now, the world faced incredible uncertainty. We are all watching the events unfold in Ukraine, and there are many potential scenarios which are difficult to predict. While the circumstances are very different, our focus is the same—on the wellbeing of our people, serving our clients and staying close to their evolving needs, and helping our communities. We emerged from the pandemic an even stronger and more relevant company, and we will use this strength to successfully navigate this environment and fulfill these same three goals.

Over to you KC....

KC McClure

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

We were extremely pleased with our overall results in the second quarter, which exceeded our expectations, with record new bookings of almost \$20 billion ... \$2.8 billion higher than our previous record set last quarter. Our results reflected very strong double-digit revenue growth across all dimensions of our business which reinforce the relevance of our offerings and capabilities in the market to deliver value for our clients.

We had a very strong Q2 and first half of the year. While we know the environment is uncertain given the ongoing conflict in Ukraine ... we always call it as we see it... and based on the best information we have today, we are increasing key elements of our full-year guidance, which I will cover in more detail later in our call.

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

- Revenues grew 28% in local currency, increasing \$3.0 billion over Q2 last year, and nearly \$300 million above the top end of our guided range, driven by broad-based over delivery across all markets, services and industries, with all 13 industries growing double-digits. We also continued to extend our leadership position with growth, estimated to be more than 3 times the market, which refers to our basket of publicly traded companies.
- We delivered EPS in the quarter of \$2.54, reflecting 25% growth over adjusted EPS last year. And, operating margin of 13.7% was consistent with Q2 of last year and 10 basis points expansion year-to-date, and reflects continued significant investments in our people and our business.
- Finally, we delivered free cash flow of \$2.0 billion and returned \$2.3 billion to shareholders through repurchases and dividends. We have made investments of \$1.8 billion in acquisitions primarily attributed to 21 transactions in the first half of the year. And, we continue to expect to invest approximately \$4 billion in acquisitions this fiscal year.

With that, let me turn to some of the details.

New bookings were a record at \$19.6 billion for the quarter, representing growth of 22% in USD, over a very strong Q2 last year, with an overall book-to-bill of 1.3.

- Consulting bookings were \$10.9 billion, a record high, with a book-to-bill of 1.3.
- Outsourcing bookings were also a record at \$8.7 billion, with a book-to-bill of 1.3.

We were very pleased with our new bookings, which were driven by both Technology Services and Strategy & Consulting, as well as 36 clients with bookings over \$100 million.

Turning now to revenues...

Revenues for the quarter were \$15.0 billion... a 24% increase in USD and 28% in local currency.

- Consulting revenues for the quarter were \$8.3 billion, up 29% in USD and 34% in local currency.
- Outsourcing revenues were \$6.7 billion, up 19% in USD and 23% in local currency.

Taking a closer look at our service dimensions. Strategy & Consulting, Technology Services, and Operations all grew very strong double-digits.

Turning to our geographic markets...

- In North America, revenue growth was 26% in local currency, driven by double-digit growth in Software & Platforms, Consumer Goods, Retail & Travel Services and Public Service.

- In Europe, revenues grew 31% in local currency, led by double-digit growth in Consumer Goods, Retail & Travel Services, Industrial, and Banking & Capital Markets. Looking closer at the countries, Europe was driven by double-digit growth in the UK, Germany, France, and Italy.
- In Growth Markets, we delivered 30% revenue growth in local currency driven by double-digit growth in Consumer Goods, Retail & Travel Services, Banking & Capital Markets and Public Service. From a country perspective, Growth Markets was led by double-digit growth in Japan, Australia and Brazil.

Moving down the income statement...

Gross margin for the quarter was 30.1%, compared with 29.7% for the same period last year.

Sales and marketing expense for the quarter was 9.4%, consistent with the second quarter last year.

General and administrative expense was 7.0% compared to 6.6% for the same quarter last year.

Operating income was \$2.1 billion in the second quarter, reflecting a 13.7% operating margin, consistent with Q2 last year.

Before I continue, as a reminder, we recognized an investment gain in Q2 last year which impacted our tax rate and increased EPS by \$0.21. The following comparisons exclude these impacts and reflect adjusted results.

Our effective tax rate for the quarter was 19.2%, compared with an adjusted effective tax rate of 17.5% for the second quarter last year.

Diluted earnings per share were \$2.54, compared with adjusted diluted EPS of \$2.03 in the second quarter last year.

Days Services Outstanding were 41 days, compared to 42 days last quarter and 34 days in the second quarter of last year.

Free cash flow for the quarter was \$2.0 billion, resulting from cash generated by operating activities of \$2.2 billion, net of property and equipment additions of \$165 million.

Our cash balance at February 28th was \$5.5 billion, compared with \$8.2 billion at August 31st.

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

In the second quarter, we repurchased or redeemed 4.6 million shares for \$1.7 billion, at an average price of \$369.19 per share. As of February 28th, we had approximately \$4.6 billion of share repurchase authority remaining.

Also, in February, we paid a quarterly cash dividend of \$0.97 per share, for a total of \$617 million. This represented a 10% increase over last year. And, our Board of Directors declared a

quarterly cash dividend of \$0.97 per share to be paid on May 13th, a 10% increase over last year.

So, at the halfway point of fiscal 22, we have delivered very strong results.

Now, let me turn it back to Julie.

Julie Sweet

Thank you, KC.

Let's begin with the demand environment. We are experiencing double-digit growth in all parts of our business—across all markets, industries and services. All our growth priorities—Applied Intelligence, Cloud, Industry X, Intelligent Operations, Intelligent Platform Services, Interactive, Security and Transformational change management—all are growing double-digits.

Many of our clients are taking on bold transformation programs, often spanning multiple parts of the enterprise and in accelerated time frames, which we call compressed transformation, as they recognize the need to transform every part of their enterprise with technology, data and AI and new ways of working.

What is also clear is that the sheer speed at which an enterprise now needs to move, and the breadth of the expertise required to transform, demands partnerships.

For example, our wide range of managed services, from intelligent operations to application development and maintenance, to cloud, infrastructure and security, are strategic capabilities that enable our clients to digitize faster, access hard-to-hire talent, transform more quickly due to our deep expertise and achieve outcomes...from greater efficiency, to improved customer satisfaction, to enhanced security, to faster development, to higher growth. Our managed services are unique because they combine our strong strategy and consulting capabilities to anticipate and shape the future and be at the cutting edge of industry, function, and technology.

We also see our clients looking for partners who can create 360° value—upskilling their people, focusing on enhancing diversity, and building in sustainability, which is our focus. Stepping back, when you think about the extraordinary growth we are experiencing and how we navigated the pandemic, we believe our commitment to create 360° value for all our stakeholders, and our unmatched diversity of people, services, industries, functions, markets, ecosystem partners and investments, together with our leadership in technology, have made us both relevant to the world's largest companies and resilient.

I will now bring to life how we are partnering with our clients with a snapshot of the range of solutions we are bringing across industries and across the enterprise.

Let's start with enterprise functions.

In Chemicals and Natural Resources, we are expanding our relationship with a leading chemical manufacturer to carve out one of their business units serving the automotive industry to better focus on sustainable solutions. As part of this carve-out, we will build the backbone of this new entity, with a cloud-based infrastructure, ERP platforms, and intelligent operations managed services for Technology, HR, and Finance—all in just over one year. This compressed

transformation will create new value, reduce operating costs by up to 30%, enhance portfolio flexibility and enable future growth in new areas.

In consumer goods and services, we are working with a large multi-national personal care corporation to build an integrated digital core with standardized processes, IT enterprise platforms, and instant access to consolidated data in the cloud which will enable a more efficient and flexible supply chain, and digital order processing. This will provide more time to sell, reduce human error, create a better customer experience and deliver a stronger bottom line. We will also streamline financial operations leading to greater agility and cost benefits to remain competitive in any environment and delight their consumers.

Now I will turn to our solutions helping transform the core operations of our clients.

In High Tech, we are supporting Airbus, a leading aircraft manufacturer, in several areas of their business, including digital design, manufacturing, and services. With our acquisition of umlaut, we are also helping Airbus engineering and manufacturing teams to develop the new A350F. At the same time, we will also onboard and manage training for new frontline employees using a realistic digital twin pilot—optimizing onboarding time and significantly reducing the learning curve of shop floor workers without disturbing production.

In Banking and Capital Markets, we are helping BBVA, a global financial services firm, synchronize and speed up its digital journey. With the power of analytics, AI, and automation, we will create an “intelligent” data-driven banking operation with greater agility and productivity—lowering costs by up to 30% by leveraging our strategic managed services, improving their customer experience, and becoming an integral part of their talent strategy to provide new growth opportunities, upskilling and security opportunities. This builds on our work with this digital leader that spans over 25 years, including international expansion, capital markets strategy, and digital sales and services.

In Health, we are helping Highmark Health, a national blended health organization, make healthcare more personalized and proactive through the power of technology and data. By leveraging the cloud, an operational hub will bridge business units, consolidate enterprise data, provide faster insights, and personalize the customer experience with the flexibility to evolve as needs change. By maximizing its key asset—data—Highmark Health will see faster times to market, reduced operational costs and increased innovation—and, most importantly, better health outcomes.

And we are helping our clients accelerate their growth agenda.

In consumer goods and services, we are collaborating with Del Monte, the iconic fresh and packaged food company, to establish effective B2B2C and direct-to-consumer commerce platforms. We will transition and scale their existing platforms into a “one commerce” ecosystem to make it easier to create and launch new products, driving significant growth in their e-commerce revenue.

We are working with clients to help shape and deliver on the significant emerging opportunity of the metaverse. We've been an early innovator in this area going back a number of years, investing in R&D, our people, and our own metaverse, One Accenture Park, all of which positions us to help our clients accelerate their metaverse strategies and initiatives.

In Communications and Media, we are helping Telstra, Australia's leading telecommunications company, to deploy 5G connectivity and technology to deliver immersive fan experiences at Melbourne's Marvel Stadium. From booking a seat, to parking, to engaging with the match, fans will soon be able to experience a new augmented reality stadium experience before, during, and after they attend the game.

And, if you missed the release yesterday, please be sure to read our new Technology Vision, which is titled "Meet me in the Metaverse" and is available on our website.

And we are building the digital cores of our clients, from re-platforming in cloud to building core systems as described in many of the examples above to helping them secure their enterprise as the security landscape widens.

In life sciences, we are working with Merck, a global pharmaceutical leader, to create robust and tangible value across the organization, which will help enable growth and accelerate the development of life-changing therapies for patients around the world. We will develop a more flexible and responsive IT infrastructure in the cloud, leveraging data and analytics, and product-centric methodologies, to power innovation, insight and speed. At the same time, we are cultivating IT talent through a new operating model that drives upskilling, diversity and development.

Also in life sciences, we are expanding our partnership with an international drug wholesale company, which advances development and delivery of healthcare products, including life-saving cancer treatments and COVID vaccines around the world, to support their suite of cybersecurity towers by creating an integrated delivery model to increase resilience, accountability, collaboration and feedback across Monitoring, Engineering, Data Protection, Risk and Compliance, and Identity while also reducing costs.

And we are helping our clients put sustainability in their core.

We are helping a leading steel and mining company move to low-carbon steelmaking and employ decarbonization technologies. As an end-to-end partner supporting the company's ambitious decarbonization program, we will help standardize and implement the technical solution among its sites.

I would now like to briefly comment on how Accenture, as a company, and our people have mobilized to support our Ukrainian colleagues and provide humanitarian aid. When people ask me what makes Accenture special, our actions like these are what come to mind.

While we do not have operations or people who work in the Ukraine, we have many Ukrainians who work for us, particularly in Poland. For their extended families who are in Ukraine, we quickly put in place Ukrainian-language telehealth and other remote support services, and for those family members who are leaving the Ukraine, we are providing resettlement assistance. I also am proud of our people who have volunteered to drive refugees from the border to help get them settled.

With a decade of experience helping refugees, we knew that not-for-profit organizations operating in Ukraine and the border countries providing humanitarian relief would have an initial immediate need for cash. We are currently donating \$5 million in cash to these organizations. In

addition, our people have donated nearly \$1.5 million in our employee giving program, and we are providing 100% match funding.

Our people also have sprung into action to anticipate the next needs of refugees. In Poland, we are piloting the first edition of an Accenture Academy for women refugees from Ukraine to build their technology skills, starting in cybersecurity.

Finally, as we have shared, we are discontinuing our business in Russia. We are working to support our nearly 2,300 employees there, and we want to thank them for their dedication and commitment to Accenture over the years.

Back to you, KC.

KC McClure

Thanks, Julie.

Before I get into our business outlook, I would like to provide some context as events are rapidly evolving and there is a significant amount of uncertainty. Our third-quarter and full-year guidance does not include any assumption for a significant escalation or expansion of economic disruption or the conflict's current scope.

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

For the third quarter of fiscal 22, we expect revenues to be in the range of \$15.70 - \$16.15 billion. This assumes the impact of FX will be about negative 4% compared to the third quarter of fiscal 21 and reflects an estimated 22% to 26% growth in local currency.

For the full fiscal year 22...

Based upon how the rates have been trending over the last few weeks, we continue to expect the impact of FX on our results in USD will be approximately negative 3% compared to fiscal 21.

For the full fiscal 22, we now expect our revenue to be in the range of 24% to 26% growth in local currency over fiscal 21, which continues to assume an inorganic contribution of about 5%.

For operating margin, we now expect fiscal year 22 to be 15.2%, a 10 basis-point expansion over fiscal 21 results.

We continue to expect our annual effective tax rate to be in the range of 23% to 25%. This compares to an adjusted effective tax rate of 23.1% in fiscal 21.

For earnings per share, we now expect our full-year diluted EPS for fiscal 22 to be in the range of \$10.61 to \$10.81, or 21% to 23% growth over adjusted fiscal 21 results.

For the full fiscal 22, we now expect operating cash flow to be in the range of \$8.7 to \$9.2 billion, property and equipment additions to be approximately \$700 million, and free cash flow to be in the range of \$8.0 billion to \$8.5 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 now expect to return at least \$6.5 billion through dividends and share repurchases as we remain committed to returning a substantial portion of our cash to our shareholders.

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

QUESTIONS AND ANSWERS

Angie Park

Thanks, KC.

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

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

Operator

Thank you, ladies and gentlemen. If you wish to ask a question, please press one then zero on your telephone keypad. You may withdraw your question at any time by repeating the one zero command. Our first question comes from the line of Lisa Ellis with MoffettNathanson. Please go ahead.

Lisa Ellis

Hey, good morning, guys, and good stuff here. Yes, Julie, we could hear you the whole time. I don't think the call dropped.

Can you talk a little bit about, given you guys are very global and very much on the front lines with major corporations, what impact or changes are you seeing companies start to make with the work they're doing with Accenture in response to the macroeconomic environment, meaning to deal with inflation or supply chain challenges or sanction enforcement or anything like that? What are some of these, or are you starting to see some conversations going, some shifts or interest in doing different types of programs with you? Thank you.

Julie Sweet

Thanks, Lisa. It's a great question because we're talking to clients all the time. And I guess let me just start with, I think the experience of the pandemic has just built in more of a sense of resilience and agility. And so, we're seeing really a lot of what I call calm in response to the macro environment. I mean the reality is that it's very early. And while there are lots of like predictions around what could happen with inflation, what could happen with supply chain, people are not overreacting. And instead, what I'd say is they are remaining very focused on the priorities they had before the crisis. Because as you talk about inflation, it's already a reality. And we're already living that. And so, for inflation, depending on the industry, like, for example, consumer goods, there's been a lot of focus on growth and cost, with costs being even higher up because you're seeing that you can't push through, in price increases, all of the increases in inputs. Of course, as you think about the potential scenarios around, like disruption of agriculture and so on, we could see that potentially going higher, but it's too early to tell. And instead, companies are saying, look, we've got to make sure that we're on pace and we're executing. The same as they think about energy prices. Supply chain, if anything, there's just been an increased focus on... we need to think as much about resilience, as cost in the supply chain and we absolutely have to digitize, so we've got more insight.

And so, I think the trends that we were already seeing to address things coming out of the pandemic, the changing economic environment around inflation, are simply being focused on even more. And this premium on are we building in agility and are we going at the right pace? You know, that's really the nature of the conversations.

Lisa Ellis

Got it. Okay. And then maybe my follow-up, KC, for you, I'll ask the inevitable margin question. It looked like, I know Julie made a comment about contract pricing being up. Looks like gross margins are up, but SG&A also was up a bit. And then you're coming in at the lower end of your margin expectation. Can you just talk a little bit about the drivers there? What's going on, any underlying costs? Thank you.

KC McClure

Sure. Thanks, Lisa. Let me first start with, we were really pleased with our performance in operating margin. So we've expanded 10 basis points for the first half of the year and we were flat in the second quarter. And really, that was driven by revenue growth, as we mentioned, that had improved pricing on our record bookings. So very pleased with profit this quarter, including the 25% growth that we delivered in EPS.

And so, let me just peel that back a bit. So we're in a hyper growth environment where we're hiring at elevated levels to meet this demand. So at the same time, as you know, we're navigating wage inflation. So, Lisa, we remain very focused on pricing, knowing that it's going to take some time for the improved pricing, which lags compensation, to flow through our P&L. But we did see some impact of that in this second quarter result.

I think probably more importantly, it's really very important that we significantly invest in our people, in our business, and we're doing so at even higher levels than last year. So we're absorbing that also in our op margin, as well as the step up that we've talked about in our acquisition spend.

So just in summary, we're halfway through the year, we're at 10 basis points of margin expansion. We think we'll continue that level of margin expansion in the back half of the year. Really pleased with that. And that would mean an EPS growth, which is stellar at 21% to 23% growth for the year.

Lisa Ellis

Thank you. Thank you. And congrats again. Thanks.

Operator

Thank you. Our next question comes from the line of Bryan Keane with Deutsche Bank. Please go ahead.

Bryan Keane: Hi, guys. Congratulations on these great results. I had two questions. I guess the first one is given the disruption to some of the digital engineering IT services firms in Eastern Europe, is Accenture seeing additional demand from clients looking to other vendors?

Julie Sweet

Thanks, Bryan. It's really too early to see that. We're seeing clients staying very focused on their business and what we're doing with them.

Bryan Keane

Got it. And the other thing that jumped out at me is the 3X growth rate versus the market. I think typically Accenture has been more of a 2X, in recent years. So can you just talk to us about why the expansion and share gains that's happened over, just recently here?

Julie Sweet

Yeah, thanks, Brian. You know, it's really, I think, a combination of things. Let's just always start with our clients. Pre-pandemic, what we saw were clients much more into, they did transformation quite sequentially. The pandemic was a major shock. You saw the leaders who were kind of coming into that saying, we've got to go even faster. And you saw a bunch of companies saying we need to leapfrog. We need to move online. We need to do digital transformation. And that meant that we saw companies starting to take on not sequential transformation, but what we call compressed transformation where they're at the same time doing manufacturing as well as sales. And you saw that in some of the examples that I gave today, where you've got entirely new backbones being created across multiple enterprise functions, where you've got both new platforms being put into place and manufacturing. And they're doing that in order to lead and because of what they see in the business.

And when you think about who is able to help navigate, because you don't do that kind of transformation with a different partner for every transformation. Accenture is very distinctive in our industry because we are able to transform every part of the enterprise, and that's one of the things I was trying to emphasize. Like, we can do finance and HR. We've got the growth agenda, sales, marketing and service. We've been investing for a decade in Industry X, which is really taking off, we've talked about the digital frontier. So you have in Accenture a partner that can do that and you see that over the course of the last two years, in the record numbers compared to pre-pandemic of clients with over 100 million in bookings, and it's really, it's recognizing, it's representing that level of demand, and we're quite unique.

Like we've talked about this for years. All of our different services, our deep industry knowledge and when you're moving fast, you need a partner that really can span the enterprise and has that deep knowledge of the industry. And that is, of course, driving the growth because we are capturing the momentum in every part of the enterprise that's happening now.

Bryan Keane

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Tien-tsin Huang with JP Morgan. Please go ahead.

Tien-tsin Huang

Thank you so much, great results here. Just wanted to clarify your assumptions on the really strong outlook. Can we assume that your approach towards guidance is similar to the approach you took at the onset of the pandemic? And are you assuming any slowdown in Europe in your guidance? I know there's a lot of questions we're getting on macro within Europe, so I figured I'd just ask it here.

KC McClure

Thanks, Tien-tsin. So let me just cover what we're assuming in our guidance. So maybe I'll first start with, our guidance does take into account the revenue impact of discontinuing our business in Russia and the cost to wind that down.

Now, with respect to the broader risk, our guidance, we're calling it like we see it, Tien-tsin, so it's the same way that we did, we always do and we did during the pandemic. And today, we don't see a significant disruption in our business. Now it's still very early and it's difficult to predict. So our guidance does not take into account any significant escalation or expansion of economic disruption or the conflict's current scope.

Now as it pertains to Europe, we are not seeing a significant disruption in our business in Europe, you've seen that reflected as well in very strong bookings and revenue growth. And for the back half of the year, our guidance continues to assume very strong double-digit growth, including in Europe.

Tien-tsin Huang

Okay, great. We trust your outlook. I just want to make sure I understood the approach here. Just my quick follow-up, just with 36 clients, over 100 million, big number. I'm just curious if the pipeline for larger deals, how does that look from here? Your ability to replenish? I know we're in March now, but just curious what you're thinking on larger deals, looking ahead here? Thanks.

KC McClure

I'll comment on the pipeline, Tien-tsin, and see if Julie wants to add anything else, but we continue to feel good about our pipeline, even with another quarter of record bookings just completed. We were very pleased with our bookings, obviously, in Q2 and for the first half of the year. But bookings can be lumpy from quarter to quarter. So we focus on the trailing 12-month book-to-bill as I know many of you do, too. But we overall still feel really good about our pipeline.

Julie Sweet

Yeah, and Tien-tsin, I wanted to add, maybe back to your last question, we are doing exactly what we did in the pandemic, which is we're calling it like we see it. So we'll update every quarter. And we're really close to the clients. And as we said at the beginning, it is too early. So we're not trying to build in, be overly conservative or overly optimistic, like we really just call it down the fairway. And next quarter, we'll update and we'll go from there.

Tien-tsin Huang

So we understand the approach. Appreciate it, guys. Thank you.

Julie Sweet

Thanks.

Operator

Thank you. Our next question comes from the line of Jason Kupferberg with Bank of America. Please go ahead.

Jason Kupferberg

Great, guys. I just wanted to ask about the bookings. Obviously extremely strong here, and I was just curious on the consulting and outsourcing side, how much above your internal

expectations did they come in and how should we think about book-to-bill in the back half of the year? I know, year to date, it's nicely elevated at one point two times. So should we just expect some normalization there in the back half?

KC McClure

Hi, Jason. I would say that our bookings, our record bookings did come in higher than we expected. That was a broad-based overdelivery across all markets, all services and industries, as well as consulting and outsourcing type of work. And again, we look at an overall book-to-bill, as I just mentioned to Bryan, on a trailing 12 months, three or four quarters at a time. So we feel good about where we are and our positioning and our pipeline and our bookings to date as we head into H2.

Jason Kupferberg

All right. Understood. And then can you just remind us which countries within Central and Eastern Europe you have the most meaningful headcount, obviously excluding Russia. But I know you've mentioned Poland earlier, but just so we have a broader picture of the headcount distribution in the region? Thanks.

Julie Sweet

Sure. Poland and Romania would be the two where we've got delivery centers. We don't have a big local market, but Poland and Romania.

Jason Kupferberg

Thank you.

Operator

Thank you. Our next question comes from the line of Keith Bachman with Bank of Montreal. Please go ahead.

Keith Bachman

Hi, many thanks. Julie, I wanted to direct this to you. And the nature of the question is I wanted to get your view about the durability of double-digit growth, and I'm not focused on this year. So our model goes back to 2006 for Accenture. So 2006 to 2021, Accenture grew on average by about eight points, which includes some M&A. Half of those years were in the double-digit range, half were not. And so, I'm just trying to think, and I think investors are really focused on the phenomenal year that you're having this year. But it sets up, A) a very difficult compare, including five points of M&A and, B) a lot of companies, including my firm, came out of COVID and said, we need to do a lot of things differently. So stressing, trying to fix our IT infrastructure, may have created some pull-in. The things we were going to do over the next five years, you know, many firms are doing over the next one year. So I wanted to get your, with that as a context, how do you see as you look out through 2023 and beyond, how do you view Accenture's ability to sustain double-digit growth?

Julie Sweet

Well, thanks. I love that you look at it over a long term because that's what we do. And so, the way we think about growth isn't about is it double-digit or not. We've had a very enduring, and I think it's served us well, a belief that we should be growing more than the market. And so, that is what we focus on, is that we are always continuing to take market share and that is an enduring commitment that we anchor to.

Now, the way we do that is that we stay very close to clients so that we know not only what they need today, but also, we can anticipate what they need tomorrow. And that's really important. So yesterday, for example, we talked about the Metaverse Continuum where we have been investing for a decade. We think the Metaverse and Web3 is as significant as when in 2013, we called that every business would be a digital business, and that will be a huge transformation over the next decade that will also be part of sort of next waves of growth.

At the same time, it's really important to look at where we are now, which is still extraordinarily early in the digital transformation of every part of the enterprise. We estimate, for example, that only about 30% of workloads have moved to the cloud. And once you get to the cloud, that's when you actually use those technologies to grow and innovate. You saw that in some of the examples that we gave today, where you're having the cloud piece, but then you're figuring out how to use the data and the AI to really transform. When you look at replatforming on the leading SaaS platforms, similarly, extraordinarily early. So everyone feels the big focus on digital because that was the wakeup call from the pandemic. But the actual transformation and just putting in the foundation is still very early stages, and then it's what you do on that foundation.

Then if you look at, from a technology development point of view, let's take manufacturing and supply chain. Many of the technologies that are advanced have only been introduced in the last couple of years, the advanced cloud-based technologies. And so, technology itself, like there's still new functionality that doesn't even exist in some of the major platforms that's still being created. And so, we consider the manufacturing and supply chain is the next digital frontier. And, of course, that was a big play for us, which we've been doing for the last decade because it's a move from IT to OT as you think about the budgets that we're accessing.

And so, overall, like as much as we feel there's so much going on, you still have many, many companies who have not started the compressed transformation. You're very early in the platforming of what's today, let alone the next things that we can already see like Web3.

Keith Bachman

Okay, very helpful, thank you. KC, I'll make my follow-up a bit more pointed question and just want to try to understand the operating margin comments that you made before. And specifically, is wage inflation impacting that negatively, influencing some of the comments you made about the potential for operating margin expansion this year?

KC McClure

Yes, so in terms of wage inflation, it's really a pretty similar case to what we discussed last quarter. So maybe we just kind of go back through that again. So, obviously, it's occurring in all the industries and it's across the globe and our clients are also, obviously, experiencing this as well in this very tight labor market. But for us, as it relates to wage inflation, we see for our business that we're going to continue to have wage increases in the market for certain skills. And that's going to continue to vary by geography. And we're also looking at how the consumer price index and any increases there and how that might potentially spill over into inflation at the lower end of our pyramid. And so, we're focusing on pricing to absorb our higher labor costs.

And again, as it relates to pricing, what we're seeing is that it's going to take some time, Keith, for the improved pricing, which we did have in the second quarter, again on our record bookings. We'll see that flow through our P&L. We did see some of that impact in the second quarter, but that always obviously lags the impact of compensation increases.

Julie Sweet

And I just want to add that I'm very happy with where we are in profitability. I mean if you think about what we are navigating, hyper growth has increased costs from all the recruiting. We did a big step up in acquisitions last year. We're absorbing that dilution this year. We've increased significantly the investments in our business, which are all about driving growth today, but also tomorrow. We're in an unprecedented labor market with wage inflation, which we are absorbing and still delivering at 10 basis points operating margin expansion. So I feel really good about where we are as a company, both for this year and all the things that we're doing to position ourselves to continue to grow in market-leading ways.

Keith Bachman

Okay. Many thanks.

KC McClure

Thank you, Keith.

Operator

Thank you. Our next question comes from Ashwin Shirvaikar with Citi. Please go ahead.

Ashwin Shirvaikar

Thank you. Hi, Julie. Hi, KC. Good morning and congratulations on the quarter and outlook. I wanted to start with an M&A question. I believe there was no M&A since last earnings, perhaps I may have missed a smaller deal or two. Is that just a quirk of timing, or is it that you just recently did larger deals and are integrating? Might there be other factors at play?

KC McClure

So, Ashwin, we're about halfway through the year. We did have a lot of acquisitions close in Q1. And you're right, we did have less close in Q2, but acquisition closings, they can be lumpy. We can't always control the timing. So we've deployed 1.8 billion of acquisition spend year to date. We continue to expect about four billion of acquisition spend in FY22. But, of course, we're only going to do deals that make sense. And so, it could be plus or minus the four billion and we'll update you next quarter.

Julie Sweet

And I just think, I wish we could manage it, sort of like say, we're going to do this many and then we're going to absorb. But it really is just about timing goes up and down. And also, we have a lot of rigor and discipline. We're only going to do deals that we believe in. So we're not trying to manage in any way to a quarter. We've got a capital allocation. If we can do that with great deals, we're going to do it. And so, that's the approach. I will take the opportunity just to say, one of the ones we did announce, we did close two this quarter, but one of the ones we announced, I'm super excited about, which is AFD.TECH, which is in the network space, 1,600 people in France. And it's important because as you think about what's happening in digitization, our increasing move into really leading in network is important. And it's just another great example of how we use acquisitions to accelerate our strategic growth priorities. It's an important part of Accenture Cloud First.

Ashwin Shirvaikar

No doubt. I agree with that. And I wanted to ask a follow-up question that has, unfortunately, been asked in a few different ways, but I think you capture it well in your kickoff sentence when

you mentioned the incredibly high level of uncertainty. But I believe that since the compressed transformation move started, this is probably the first major test of secular trend versus cyclical uncertainty. And I know you're calling outlook like you see it, but is this time different? Can this trend to secular overcome cyclical challenges?

Julie Sweet

All roads to dealing with the types of things that may come out of this crisis, other than perhaps the military scenarios, whether it's more inflation, the need for energy conservation due to higher energy prices, the disruption in supply chain, agriculture, all roads lead to some combination of technology and human ingenuity, which is what we bring together. And so, you've got great solutions like managed services to accelerate both cost takeout and finding new ways to grow, new ways to access markets. You've got energy efficiency that's going to come from technology improvements. And so, if you think about what we do, we're the company that's going to be able to help companies navigate these macro trends.

And so, we really believe that the importance of technology and then being able to apply it to get tangible outcomes is going to be critical. And so, we believe we'll be resilient through whatever this is going to be as well.

Ashwin Shirvaikar

Understood. Thank you for that.

Operator

Thank you. Our next question comes from the line of Surinder Thind with Jefferies. Please go ahead.

Surinder Thind

Thank you. The first question I'd like to ask is just about talent and your ability to acquire it more globally. Obviously, an earlier announcement about the apprenticeship program and the expansion of it in the U.S. Can you talk a little bit about, as you build out the bottom base of the pyramid for your delivery, how does something like that impact like bill rates or the clients' willingness to accept bill rates when you're using individuals with non-four-year degrees and so forth?

Julie Sweet

Interesting question. I would say that our clients really focus on skills, they don't focus on degrees. And so, what they're looking for are the skills, and that's a broader trend. In fact, we've predicted that three years from now, chief human resources officers will all be talking about skills, and it's part of this trend. You need to be not a consumer, but a creator of talent, understand skills and then be able to reskill.

Surinder Thind

Fair enough. And does that also impact your costs as well, though? Are you able to employ them at a better cost base, I guess? How should I think about the arbitrage opportunity there, if clients are willing to pay for that full skill?

Julie Sweet

I wouldn't think about the arbitrage opportunity. We pay market-relevant pay and the focus on skills, even if you look at the way we draft our recruiting thing, it is about the skills. And so, there isn't something that because you've got a two-year degree versus a four-year degree, now

you're paid less. It's about skills. So there's a market price for these skills. So I wouldn't think of that as labor arbitrage.

Surinder Thind

That's helpful. Got it. And then as a follow-up question, just a big picture, longer term question just about the delivery model. Do the current geopolitical events maybe change your perception of where you may want to operate or expand to? There's generally been in the trend of the last few years, much more global delivery. Obviously, you guys are very global, but in terms of just trying to get as much talent in every country, everywhere. How does that kind of change the way that you might be thinking about delivery, whether it's being more concentrated in certain regions or areas or avoiding other regions and areas?

Julie Sweet

What I would say is since the time of the pandemic, when we had this global shock, we continue to evolve our ability to move work and be flexible. And so, our focus is really on that agility and making sure that we have the right kinds of talent, both geographically dispersed, but also the ability to move talent around.

Surinder Thind

Thank you.

Angie Park

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

Operator

Thank you. Our last question will come from the line of Brian Essex with Goldman Sachs. Please go ahead.

Brian Essex

Great. Thank you for taking the question. Echo my congratulations on the results for the quarter. I guess I wanted to follow up to the last question. Maybe a little different angle focused on the supply side. So I guess with that in mind, Julie, are you seeing, obviously, in a post-pandemic era or hopefully, we're coming out of the pandemic, you know, companies are used to operating in a hybrid world, more agnostic to where work is performed. Any trends or overarching trends that you can call out, either by skill level or by geography, where they might specifically, would love to focus in on how they're managing costs. So are they looking to shift work to particular geographies? Do you see demand in particular geographies? Are there certain trends that you would call out with regard to the skilling of labor forces, in particular geographies that are notable where you might see some cost benefit or better ability to supply to meet demand?

Julie Sweet

I'm talking about talent all the time with our clients, and I'd say that slightly different than what your focus is. Here are the two big things which are all around accessing talent. So, and accessing talent means you have to be able to attract and retain it, and you've got to be able to get it at scale. So the bigger focus is around what does it take to attract and retain in a hybrid work environment? And so, more companies are focused on, where they used to want everybody in the office, having more of a hybrid model, and that has knock-on cost effects as you decrease your real estate. And so, that's been a big focus. But the actual, the thing we talk to clients about is, it's more about how do you attract people, who today all of our research

shows, that if you're not having to be there in a front-line worker, you want some combination and then that does have costs. And so, that's a huge focus around talent.

The second piece on access, if you look at the way our managed services are being driven is really two big things. One is that it's faster to digitize if you use our platforms, and the second is the access to the hard-to-get talent. And so, you know, let's just take security. We have 10,000 security professionals who do everything from threat assessment, to the rebuilding and designing platforms, to managed services. And in today's world, with the security landscape broadening, that access to that kind of talent is incredible. And so, just the real focus is on access and what does it take to access it, including through partnerships. And those are the kinds of conversations that we have.

Brian Essex

Got it. That's super helpful. And maybe just one quick follow-up on Resources. What have you seen historically? I know we've got accelerating energy prices, oil in particular. What have you seen historically with regard to follow-on for alternative projects and greater investment in the energy sector, in particular, in response to prices? How high is it being correlated, particularly on the discretionary side and maybe your experience in terms of how you see and follow through with spend in that sector?

Julie Sweet

Well, listen, I was just at CERAWEEK, which is the world's largest energy conference, for a couple of days just last week. So I spent a lot of time with everyone in the energy sector. And I think rather than looking at it historically, let's look at it like, what are people talking about now? So first of all, despite the increases in prices, say in oil and gas, no one's saying, hey, now we've got to let up on cost. In fact, the exact opposite because the oil and gas industry, in fact, the entire energy industry has a major challenge ahead of investing to move to sustainable energy solutions. And so, what I would say is that there is an absolutely laser focus on continuing what that industry had to do during the pandemic because of the focus on costs and now accelerate innovation and moving to sustainable energy solutions. And that's where we gave the example today of how we're helping in decarbonization. We announced this week what we're doing with Ecopetrol and AWS around water management.

And so, we're playing, we're obviously very well situated. We have a deep, deep expertise in utilities and oil and gas and the entire energy sector in, at their core, both enterprise as well as in the grid, at the refinery and then helping really create those sustainable solutions. We see this as a major opportunity for our clients that we want to help them on.

Brian Essex

Fair enough. Thank you very much.

Julie Sweet

Great. Thank you very much. I'm going to close the call now. Thanks, everyone for joining us. And thank you again to our incredible people and to our shareholders for your continued trust. Please make sure to join us for our virtual Investor and Analyst Day on Thursday, April 7th. We're looking forward to being back together.

Thanks, everyone.