

# Accenture

## First Quarter Fiscal 2023 Financial Results

### Conference Call Transcript

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#### **CORPORATE PARTICIPANTS**

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**Julie Sweet** – *Chair and Chief Executive Officer*

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

**Katie O'Connor**

Thank you, operator, and thanks, everyone, for joining us today on our first quarter fiscal 2023 earnings announcement. As the operator just mentioned, I'm Katie O'Connor, Managing Director, Head of Investor Relations. On today's call, you'll 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 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 2023. We will then take your questions before Julie provides a wrap-up at the end of the call.

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

These risks and uncertainties could cause actual results to differ materially from those expressed in this call. During our call today, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures where appropriate to GAAP in our news release or in the Investor Relations section of our website at [accenture.com](http://accenture.com). As always, Accenture assumes no obligation to update the information presented on this conference call.

Now let me turn the call over to Julie.

**Julie Sweet**

Thank you to everyone joining us today, and especially to our people around the world for their extraordinary work and commitment to our clients, which resulted in delivering another strong quarter of financial results and the broader 360-degree value we continue to create for all our stakeholders, our clients, our people, our shareholders, our partners and our communities.

Let me share a few highlights of this 360-degree value and our continued disciplined execution. We delivered strong bookings of \$16.2 billion, with 24 clients with quarterly new bookings over \$100 million, demonstrating our clients' continued commitment to transformation and our ability to understand and anticipate our clients' needs, whether for growth, cost optimization or resilience and our ability to deliver compressed transformations.

We delivered revenues of \$15.7 billion, representing 15% revenue growth in local currency, with double-digit growth in each market. We estimate that we are growing more than 2x the market, while delivering margin expansion of 20 basis points. We continue to invest in our people, with 10.4 million training hours this quarter, representing an average of 15 hours per person, providing learning opportunities and upscaling to enable us to pivot as our clients' needs evolve.

We earned the #1 position on the Refinitiv Diversity & Inclusion Index for the third time in the past five years and a top score on the Workplace Pride Global Benchmark, recognizing Accenture as a leader in our industry. We believe our unwavering commitment to diversity and inclusion is both the right thing to do and an essential element of our business strategy and strong financial performance.

We have reached 97% renewable electricity, closing in on our goal of 100% by the end of 2023. Our own progress in sustainability is important to our ability to lead in helping our clients harness this key force of change and in attracting top talent. Finally, I want to congratulate our more than 1,200 new promotes to Managing Director, 119 new appointments to Senior Managing Director and the more than 90,000 people we promoted around the world in Q1 overall, reflecting our commitment to providing vibrant career paths.

Over to you, KC.

### **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 pleased with our overall results in the first quarter, where we continue to drive growth across markets, services and industries to extend our leadership position in the market. We ran our business with rigor and discipline and expanded operating margin while investing at scale, and we continued to deliver on our shareholder value proposition through both our financial results and by creating 360-degree value for all our stakeholders.

Let me begin by summarizing a few key highlights across our three financial imperatives from the quarter.

Revenues grew 15% in local currency, reflecting a foreign exchange headwind of about 9.5% compared to the 8.5% provided in our business outlook last quarter. Adjusting for the actual foreign exchange impact in the quarter, we were approximately \$150 million above our guided range with double-digit growth across all of our markets and industry groups, with 10 of the 13 industries growing double-digits and 3 high single-digits. We continue to take market share with growth estimated to be more than 2x the market, which refers to our basket of publicly traded companies.

Operating margin was 16.5% for the quarter, an increase of 20 basis points. We continued to drive margin expansion while making significant investments in our people and our business, including acquisitions. We delivered very strong EPS of \$3.08, up 11%, while absorbing a substantial FX headwind. Finally, we delivered free cash flow of \$397 million and returned \$2.1 billion to shareholders through repurchases and dividends. We also invested \$686 million in acquisitions.

With those high-level comments, let me turn to some of the details, starting with new bookings. New bookings were \$16.2 billion for the quarter with a book-to-bill of 1.0 and growth of 6% in local currency. Consulting bookings were \$8.1 billion, with a book-to-bill of 1.0. Managed Services bookings, which we formally refer to as Outsourcing, were \$8.1 billion with a book-to-bill of 1.1. In addition, we continue to see improved pricing on our new bookings, which refer to contract profitability or margin on the work that we sell.

Turning now to revenues. Revenues for the quarter were \$15.7 billion, a 5% increase in U.S. dollars and 15% in local currency. Consulting revenues for the quarter were \$8.4 billion, up 1% in U.S. dollars and 10% in local currency. Managed Services revenues were \$7.3 billion, up 11% in U.S. dollars and 20% local currency. Taking a closer look at our service dimensions. Technology Services grew strong double-digits, Operations grew double-digits and, as expected, Strategy & Consulting grew low single-digits.

Turning to our geographic markets. In North America, revenue growth was 11% in local currency, driven by double-digit growth in Public Service, Consumer Goods, Retail & Travel Services, Industrial and Health.

In Europe, revenues grew 17% in local currency, led by double-digit growth in Industrial, Banking & Capital Markets and high single-digit growth in Consumer Goods, Retail & Travel Services. Looking closer at the countries, Europe was driven by double-digit growth in Germany, the United Kingdom, Italy and France.

In Growth Markets, we delivered 19% revenue growth in local currency, driven by double-digit growth in Banking & Capital Markets, Public Service, and Chemicals & Natural Resources. From a country perspective, gross markets was led by double-digit growth in Japan.

Moving down the income statement. Gross margin for the quarter was 32.9%, consistent with the same period last year. Sales and marketing expense for the quarter was 9.8% compared with 9.7% for the first quarter last year. General and administrative expense was 6.6% compared to 6.9% for the same quarter last year. Operating income was \$2.6 billion in the first quarter, reflecting a 16.5% operating margin, up 20 basis points compared with Q1 last year.

Our effective tax rate for the quarter was 23.3% compared with an effective tax rate of 24.4% for the first quarter last year. Diluted earnings per share were \$3.08 compared with diluted EPS of \$2.78 in the first quarter last year. Days service outstanding were 48 days compared to 43 days last quarter and 42 days in the first quarter of last year. Free cash flow for the quarter was \$397 million, resulting from cash generated by operating activities of \$495 million net of property and equipment additions of \$99 million. Our cash balance at November 30 was \$5.9 billion compared with \$7.9 billion at August 31.

With regards to our ongoing objective to return cash to shareholders, in the first quarter, we repurchased or redeemed 5.2 million shares for \$1.4 billion at an average price of \$272.03 per share. At November 30, we had approximately \$4.9 billion of share repurchase authority remaining. Also in November, we paid a quarterly cash dividend of \$1.12 per share for a total of \$706 million. This represents a 15% increase over last year. And our Board of Directors declared a quarterly cash dividend of \$1.12 per share to be paid on February 15, a 15% increase over last year.

Finally, turning to the 360-degree value we are creating for all our stakeholders. We are extremely proud to be recognized as one of the seven company all stars on the Wall Street Journal Management Top 250 list for excellence in customer satisfaction, employee engagement and development, innovation, social responsibility and financial strength, and we also received the top score for social responsibility overall.

In summary, we were pleased with our results in the first quarter, and we're off to a strong start for the year. And now let me turn it back to Julie.

### **Julie Sweet**

Thank you, KC. We remain laser-focused on staying close to our clients, advising them how to navigate the macro, providing the right solutions to enable compressed transformations and adjusting to their changing needs. Let me give some further color on what we're seeing in the market and how we see the demand environment shaping up.

Over the last quarter, as we can all read, the economic estimates for 2023 continue to decline. While the latest industry estimates for 2023's technology spending continue to show robust

growth of 5% or so, we will see how the market evolves as clients finalize 2023 budgets.

So what does today's market mean for our clients? We believe that the current macro is making it even clearer to clients that they need to change more, not less, and that two of the five key forces of change that we have identified for the next decade: the need for total enterprise reinvention enabled by tech, data and AI; and the ability to access, create and unlock the potential of talent, are critical to succeed in the near, medium and long term.

We see this continuing across industries and markets with two common themes. First, all strategies continue to lead to technology, particularly cloud, data, AI and security. And second, companies remain focused on executing compressed transformation to achieve lower costs, stronger growth, more agility and greater resilience faster.

What does this mean for Accenture? Our strategy positions us for continued industry leadership because we have a unique set of strengths that our clients need to navigate today and succeed tomorrow. We are able to do so because of our deep strategy and consulting expertise across industries, allowing us to be a trusted adviser during different economic cycles as we bring the expertise, coupled with the real-life practical experience they need.

Our ability to help clients achieve total enterprise reinvention through our depth across the enterprise, from the frontline to core operations to corporate functions, as well as our ability to advise our clients, shape and deliver value-led transformations, and through our breadth of services, from strategy and consulting to our strategic managed services, which help clients digitize faster, access talent and lower costs. And our global footprint allows us to act at scale and with speed.

Together, this positions us as the compressed transformation partner of choice, as you can see, in yet another strong quarter of clients who selected us for work of more than \$100 million this quarter. I am pleased to see how quickly we are pivoting to meet the evolving needs of our clients. We have seen a higher level of sales and pipeline coming from cost-focused initiatives, often also including growth or capability enhancements.

We are leveraging our breadth of services, deep client and ecosystem relationships and industry and functional expertise to help our clients and Accenture shift to the highest value opportunities. Our track record of delivery at speed and scale over many years with clients - - remember, 99 of our top 100 clients have been with us for over 10 years, this gives our clients confidence that by partnering with us, they will deliver on their commitments.

Investments in our assets and solutions such as myWizard and SynOps, which underlie both strategy and consulting, technology and operations managed services, as well as our delivery of compressed transformations, enable us to differentiate with our insights and services. Our ability to invest in acquisitions helps us to expand our relevance across the enterprise from building a digital core with Sentia and Albert, to optimizing operations to achieve agility, efficiency and resilience with Stellantis, to accelerating their growth agendas with Romp, and our substantial investment in the skills of our people allows us to pivot to new areas of demand to be an attractive destination for top talent.

Now let's turn to the quarter, to bring to life this demand environment across the five key forces of change for our clients: total enterprise reinvention, talent, sustainability, the metaverse and the ongoing tech revolution, which in turn drive our growth. First, total enterprise reinvention. We continue to help our clients achieve a new performance frontier by building their digital core, optimizing operations and accelerating growth, leveraging cloud, data and AI and new ways of working.

We are helping Roche, a Swiss multinational health care company specializing in pharmaceuticals and diagnostics, with a total enterprise reinvention, building a digital infrastructure to match changing business needs. Using data integration, we have changed the way tumor boards are organized and conducted, empowering counter teams to be more efficient and effective in determining next steps for cancer care. And we have built a digital ecosystem that will create innovative products and solutions to drive diabetes care.

Now as part of one of the largest ERP modernizations in the world, we are working together to deploy a digital backbone that will unify and harmonize nearly 700 business processes for more than 100,000 end users. The integrated platform will simplify the system landscape and connect activities across the value chain from R&D and manufacturing to patient treatment.

Cloud, a \$26 billion business in FY '22 grew 48%, with even stronger growth in Cloud First and continues to grow very strong double-digits. In fact, we believe that the cloud continuum will become the new operating system for the future enterprise. Migrating to the cloud to drive efficiencies is just the first step. As we anticipated with our Cloud First strategy and investments, we are seeing our clients make significant investments to modernize, improve and innovate in the cloud, leveraging data and AI to drive new business value.

For example, Accenture Federal Services is partnering with the Centers for Disease Control and Prevention, a U.S. federal agency under the Department of Health and Human Services, to accelerate its migration to the cloud across the enterprise and modernize its IT portfolio. Through this work, we will also help to achieve CDC's mission to protect people from health, safety and security threats by supporting the development of integrated, real-time public health data and surveillance systems.

As our clients build their digital core, security continues to be more important than ever, as reflected in our very strong double-digit growth in Q1. We are expanding our cybersecurity footprint for a large healthcare network in Brazil to elevate their cybersecurity posture to a new level of preparedness. We are growing the organization's security profile with a cyber-as-a-service solution that will enhance the cyber readiness of their infrastructure and operations.

This new project not only consolidates the work that up to four different providers typically do, it also is the largest known cybersecurity contract ever signed in Brazil by any provider. High demand for our strategic Managed Services, reflecting \$7.3 billion in revenue and 20% growth in the quarter, demonstrates the importance of these services to our clients' strategies as it enables clients to move faster, leveraging our digital platform's expertise and talent.

Our Managed Services are differentiated by our ability to bring in our deep expertise from across the enterprise, including Song, which grew double digits in the first quarter. For example, we're expanding our partnership with Allianz, an Italian and main bank of Allianz Group, to continue the bank's digital transformation with a new platform in the cloud, a modern IT architecture and a new operating model. Our Song team is helping to create a new customer mobile app to improve customer experience. And our end-to-end managed services capabilities, tailored to the financial services industry, will help the bank grow and scale its position in the market, ensure regulatory compliance and lower total cost of ownership.

We continue to see strong demand for our Industry X capabilities, digitizing engineering and manufacturing, which we see as the next digital frontier with continued very strong double-digit growth in Q1. We are helping Celanese, a global chemical and specialty materials company on their digital transformation journey that will increase their manufacturing

production resiliency, productivity and predictability of plant operations.

We're teaming with ecosystem partners to design and implement a scalable digital twin platform at one of their largest manufacturing facilities, which plans to increase revenues through increased plant output, reduce costs through improved productivity, product quality and equipment reliability and improve overall safety in the workplace. We also are supporting an enterprise cloud transformation to provide a scalable platform for future enterprise growth and innovation.

Next, talent. Our clients continue to look to us to access, create and unlock talent as a critical element of their transformation. We're helping a global chemical manufacturer with an end-to-end IT transformation as part of their multi-year digital journey. The company faces increasing IT costs, aging assets and tools and overreliance on contractors. We're implementing a full managed services model that will help modernize its IT, and this digital transformation includes a talent transformation. Together, we will upskill their people and data, cloud and AI through our Accenture Academy so that everyone grows together, helping the company leapfrog its competitors with innovative industry-leading solutions.

Now, sustainability. We continue to prioritize embedding sustainability into our clients' digital transformations and on providing a direct sustainability service. For example, we are expanding our partnership with a European multinational aerospace corporation to help improve their environmental and social impact across the enterprise. In recent years, we have worked together to digitize the company's supply chain and manufacturing operations using a digital twin to improve productivity and reduce waste.

Now we are working together to advance their sustainability agenda. We're supporting their aviation decarbonization road map, from accelerating the use of sustainable aviation fuel to helping design low-emissions aircraft. We are finding new ways to help make the supply chain more transparent and ethical, helping the company replace hazardous materials from the product life cycle with safer, greener alternatives. And we are outlining a strategy to help them meet its net zero targets and internally foster a culture that is focused on sustainability.

Finally, the metaverse and the ongoing tech revolution. While still in the early innings, we believe the metaverse will not only change how people work, but it will also profoundly change every part of every business, from how we interact with customers, what products and services they offer, how they are made and distributed, how you engage with your people from employee onboarding to personal productivity.

We're partnering with NTT DOCOMO, a Japanese mobile operator to speed up the adoption of Web3, a new blockchain-based version of the Internet that promises a digital economy with greater social impact. We will develop and grow a secure technology platform for Web3, which will enable new products, services and community building. Training will ensure that Web3 engineers and business leaders collaborate with organizations effectively and securely on the platform.

NTT DoCoMo's work on societal issues will now expand with the use of Web3, helping companies and governments transform social infrastructures and provide solutions that would improve people's lives. We continue to invest ahead of our clients' teams to the future, with a keen focus on innovation and the ongoing tech revolution.

Back to you, KC.

**KC McClure**

Thanks, Julie. Turning now to our business outlook. For the second quarter of fiscal '23, we expect revenues to be in the range of \$15.2 billion to \$15.75 billion. This assumes the impact of FX will be about negative 5% compared to the second quarter of fiscal '22 and reflects an estimated 6% to 10% growth in local currency.

For the full fiscal year '23, based upon how the rates have been trending over the last few weeks, we now expect the impact of FX on our results in U.S. dollars will be approximately negative 5% compared to fiscal '22. For the full fiscal '23, we continue to expect our revenue to be in the range of 8% to 11% growth in local currency over fiscal '22, which continue to assume an inorganic contribution of about 2.5%.

For operating margin, we continue to expect fiscal '23 to be 15.3% to 15.5%, a 10 to 30 basis point expansion over fiscal '22 results. I mentioned last quarter, we may see more variability in quarters as we go throughout fiscal year '23, and that's playing out as we expected, with contraction in the second quarter expected and potentially overall for H1. We continue to expect our annual effective tax rate to be in the range of 23% to 25%. This compares to an effective tax rate of 24% in fiscal '22.

For earnings per share, based on the change to FX, we now expect our full-year diluted EPS for fiscal '23 to be in the range of \$11.20 to \$11.52 or 5% to 8% growth over fiscal '22 results. Full fiscal '23, we continue to expect operating cash flow to be in the range of \$8.5 billion to \$9 billion, property and equipment additions to be approximately \$800 million and free cash flow to be in the range of \$7.7 billion to \$8.2 billion. Our free cash flow guidance continues to reflect a strong free cash flow to net income ratio of 1.1.

Finally, we continue to expect to return at least \$7.1 billion through dividends and share repurchases as we remain committed to returning a substantial portion of cash to our shareholders. And with that, let's open it up so we can take your questions. Katie?

**QUESTIONS AND ANSWERS****Katie O'Connor**

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

**Operator**

(Operator Instructions) Your first question comes from the line of Bryan Keane from Deutsche Bank.

**Bryan Keane, Deutsche Bank**

Good morning, guys and Happy Holidays. Really good results, strong results here. The one area that was a little softer was the Strategy & Consulting area, and I think you guys called that out as expected. Just thinking about Strategy & Consulting that you knew it was going to be a little bit softer, and it's becoming a little bit softer. Is that just more the move towards the cost agenda versus growth and just thinking about what we can expect there going forward?

**KC McClure**

Hey, Bryan, thanks for the question. As you mentioned, our Strategy & Consulting results for Q1, they did come in as expected. But let's talk about what we're seeing go forward. And we do see a slight decline in Strategy & Consulting for Q2, before we're going to reconnect with growth in H2. And why is that for Q2? It's really a couple of things. We do see that we are



going to have some impact from less revenue from smaller deals that Julie will talk a little bit about here.

And second, we do continue to see our S&C practitioners focus on high-impact transformational deals, and they're going to bleed into revenue a little bit later in the year. These are really important to our clients, but the revenue conversion is at a slower pace.

### **Julie Sweet**

Yes. Bryan, maybe -- I want to maybe say -- to make sort of two points. So first of all, specifically on S&C, I think it's important to understand we really have a tale of two worlds. So our S&C work is growing high single-digit to low double-digit when it's tied to areas around cloud, enterprise and industry platforms, talent, cost reduction, everything tied to building to the core. So underneath our results, like that's growing great.

The other world, right, is S&C that's tied to things like ad spend, creative marketing strategy and campaigns and other sort of front-office initiatives are contracting, right? And that's, of course, the strength of Accenture, is that we've got a very broad range of services even within the Strategy & Consulting, as well as a broad range of industries. And so while the -- at the top line, you saw it 3% this quarter, there'll be a slight decline next quarter, underneath that, you've got a lot of strength in everything that's really driving our results. And I think that's really important to just understand.

But then I want to take a step back and just maybe comment on the demand environment. KC just mentioned kind of the impact in S&C and smaller deals. So first of all, like we're obviously super pleased with Q1, right? Great growth, and we're really happy with how we're seeing the year start. Now at the same time, what do we see over the last 90 days, well we saw what everybody saw, right, which was the macros continue to have uncertainty and you've got GDP estimates declining over the past 90 days. And on the one hand, our clients clearly are remaining ambitious, right, they're committed to revamping their business. And you see that in the 24 clients with quarterly new bookings over \$100 million, right, which is an increase over this time last year.

At the same time, they're more and more focused on cost and resilience. And many are having to make pretty hard choices, right? Because the macro affects the industries differently. So you've got some industries, retail, consumer goods, that are much more challenged than say, energy. But at the same time, and we talked about starting to see this last quarter, kind of regardless of industry, as the macro uncertainty has increased, right, they're being a little bit more cautious. So we're seeing some delays in decision-making. We see changes in the pace of spending, and we're seeing some pausing of the smaller deals. And all of this impacts the smaller deals more than the bigger deals because we're continuing to see that big transformation focus.

So that impacts our revenue and profit build over the year, which is part of what we're seeing in S&C in the second quarter with the decline. And then I just want to remind everyone that this is exactly the environment that you see the strength of Accenture. It is because we are so broadly diverse. I mean you saw it in the examples in my script, all around the world, all around industries. But who else could be in Asia doing border security; in the U.S., working with the state of Missouri on a talent and tech implementation; in Europe, working with a European grocer doing IT modernization, cost reduction and customer experience?

Just moving around the world, you're back into Asia, working with a telecom operator, digitizing their platform, creating a new customer experience. And so you just continue to see

that our strategy that we've had for decades to be across industries, a global footprint and depth and breadth of services. I mean Managed Services is on fire because we could digitize faster, get that compressed transformation, help them access the talent and lower cost. So back to you, Bryan.

**Operator**

Your next question comes from the line of Tien-Tsin Huang with JPMorgan.

**Tien-Tsin Huang, JPMorgan**

Okay, thanks. Good morning. Just to add to Bryan's last question here, just as on the visibility side, especially in Consulting relative to Managed Services. And given, Julie, really what you just said there, any change in your thinking on mix of growth across Consulting versus Managed Services, asking for both, I guess, bookings as well as revenue here?

**KC McClure**

Yes. Hey, Tien-Tsin, I'll take the -- in terms of the outlook for how we see growth going by our various -- our two types of work. So for the full year, at the top end of our range, we see Consulting high single-digits, and we see Managed Services continuing to grow double-digits. And as it relates to outlook in bookings, what we're seeing is that we do have a strong pipeline and we actually see continued strong pricing in that pipeline. And we do see that we will have a solid bookings quarter in Q2, and that includes Consulting. It's likely -- it will likely be lower though than the record bookings in Consulting that we had [last year] [corrected], and we expect to continue to see really strong bookings in Managed Services.

**Julie Sweet**

Yes, and we're going to continue to focus our Strategy & Consulting expertise on these platform and cloud-led transformations.

**Tien-Tsin Huang, JPMorgan**

Got you. Okay. Perfect. Then a quick follow-up, if you don't mind. I heard the pricing, favorable utilization looks like it's steady, attrition nicely, better or lower, 13%, I think I saw on the sheet there. So just same question on visibility with respect to cost and margin, if you're flexing or changing anything here. I know the range overall is the same, but it feels like you've got a good line of sight in terms of your costs. I just wanted to confirm that. Thank you.

**KC McClure**

Yes. Sure. So I'll talk a little bit about on the attrition point, and then we can get into kind of what we're seeing overall in our cost and our visibility in that regard. So attrition was down to 13%, and I think all of you know, but there's a structural pattern of attrition that typically comes down from Q4 to Q1. This year came down at a tick more, and we're really pleased with that. And that means we have to hire fewer replacement people, it means less recruiting costs, and you saw that in our improvement in G&A this quarter, and it's less ramp-up time for new hires.

And so Tien-Tsin, in terms of visibility of what we see, I mean, we expect to continue to hire for the specific skills that we need. With upskilling, we may not need to hire as many people as we go throughout the year. But -- and we have a very deep competency in our supply and demand balancing and we're always focused on it. And in terms of profit, let me talk a little bit about what we're seeing in operating margin. So operating margin, we're pleased with the 20 basis point expansion that we have in Q1 and really pleased to be confirming our 10 to 30 basis points expansion for the year.

And as I said last quarter, we'd be pleased to land anywhere within the 10 to 30 basis point range. But let me give you a little bit more color about what we're seeing in Q2 and then just the visibility, as you ask, about the rest of the year. So I mentioned last quarter, we may see more variability in the quarters as we get through fiscal '23. And as I mentioned in the script, that is exactly playing out. Now there's a few reasons for that. So in Q2 overall, the first thing, and I think all of you know, it's a structurally lower profit quarter just to begin with, in part because of the holidays. As well as for us, it's when most of our compensation increases kick in.

So while we've planned for those comp increases, it does take some time to work through our P&L. And then in addition, in Q2, the impact of the changes of smaller deal volumes that Julie described, it's going to impact Q2 revenue. And that -- when you take everything into consideration, that's why we expect the Q2 operating margin decline in Q2 and potentially for the first half of the year. And so with that, then the math shows that most of our margin expansion will be in the back half of the year.

And how -- why is it that we see that? We have a strong pipeline, as I mentioned. We have continued strong pricing improvements in our pipeline. And as always, we have some simple, but important levers on how we run our business. We are going to, in addition to pricing, focus on cost efficiencies and delivery efficiencies within how we run our contracts. We're going to manage supply and demand, as we always do, with even more rigor and discipline. And we're going to continue to work on digitizing and cost-effective running of the operations of Accenture.

#### **Operator**

Our next question will come from the line of Lisa Ellis from SVB MoffettNathanson

#### **Lisa Ellis, MoffettNathanson**

Hi, good morning, thanks for taking my questions here. I wanted to ask, Julie, a bit about the progress on compressed transformations. I think you started using that phrase about two years ago sort of in the earlier days of the pandemic. And now as you're working with clients looking out into 2023, can you just give some color on sort of like how far they are along in their compressed transformations? Is this -- are we still only in the third or fourth inning? Or are a lot of your clients sort of in full rollout mode and we've got a couple of years left? Just trying to get a sense for sort of that big push we've seen, how far through the process are we? How much of this, sort of, sustained growth can we expect going forward?

#### **Julie Sweet**

Thanks, Lisa. It's a great question. And there's a couple of ways that you look at it. So what we saw particularly in the early days was that leaders before the pandemic, kind of were doubling down and becoming more ambitious. And from that time, you've got more and more companies then looking to see their competitors and sort of being pushed to themselves being more ambitious. And so I think I shared last quarter that we got some recent research that said something like 68% of CFOs we surveyed are working in companies that have three or more transformation programs in progress in parallel.

That being said, it's still very much the early days because we're so early in building the digital core that's enabling these transformations. So while we've had a big acceleration on the migration to the cloud, it's still kind of early innings, 35% or so. And most of the companies report, that although the -- when they get to the cloud they haven't actually been able to access the services and get the value yet, and that's why you're continuing just to see this drive in our cloud business, particularly Cloud First, because we continue to do all the migration work.

And then those we've migrated are now coming to us and say, "Hey, look, we signed these big consumption contracts, we're trying to figure out how to transform our business and we don't know how to." So you basically got people who have moved fast, have lots more to do, and that's this concept of total enterprise reinvention, and then you have many companies that are just starting to really take on these more ambitious programs. So we see this as a decade of transformation.

**Lisa Ellis, MoffettNathanson**

Okay. Good. Then a quick one on M&A. I think you highlighted, KC, about close to \$700 million in this past quarter in M&A. Can you guys just give a little more color on what you're seeing in the environment? Have you seen some of the private valuations come in? And are you seeing sort of an uptick in activity in that space?

**Julie Sweet**

Yes. I mean great companies never come at cheap prices, is what I would say. So -- and we really try to focus on buying highly-valued companies. So we really aren't seeing that. The broader environment, yes, but where we're focusing, we're not really seeing any big differences. And we think that's the right answer, right, we want to buy great companies.

**Operator**

Your next question comes from the line of Dave Koning from Baird.

**David Koning, Baird**

And I guess my question, I've noticed your -- the strategic priorities continue to grow significantly. And they grew at the same pace, at least the qualitative like numbers you wrote were at the same pace as last quarter. Is that -- I mean, is that like very close to, I guess, the same growth? Like did it decelerate at all? Or is that actually very similar? And what percent of revenues are those? Just I'm kind of thinking through the rest of the business must have decelerated a little more then.

**KC McClure**

Yes. So overall -- let me say first, Happy Holidays. It's good to talk to you. In terms of overall, our strategic priorities, as you mentioned, and you're right, you would expect in a quarter where we grew 15%, we did have higher growth overall in terms of what we have in our strategic priorities. They would -- in total, they did grow at a faster pace than the rest of Accenture at 15%, which is the intent overall of our strategic priority. And so -- which does account for the majority of our revenue.

**Julie Sweet**

Yes. Look, as you go forward, as we talked a little bit about earlier, you've got parts of our business like some of the customer focus ad spending and marketing that's -- where clients are more challenged to be able to prioritize those areas, you also see some changing in industry. So we're all reading about comms, media and tech, right? So we are going to see - - we expect kind of a slowdown in spending from those clients as they reposition and think about sort of their -- what the changes they need to make, and we're helping them do that.

So again, the diversity of our business really helps us balance. You do have, at any given time in an environment like this, areas that -- where the clients are having to make different choices and we're trying to pivot to help them and be really relevant to their current needs.

And that's why it was so important to see the -- we've been talking about this for a couple of quarters, the importance of cost and to see that really coming through in our sales and

pipeline, just demonstrates how our breadth of services allows us to pivot to the needs of our clients.

**David Koning, Baird**

Yes. Got you, thank you. And just one quick follow-up. You mentioned in Consulting, I think Tien-Tsin asked, you mentioned in Consulting, I think, bookings being down. Was that sequentially or year-over-year? And is that on a constant currency basis?

**KC McClure**

Yes. So just first of all, bookings overall in terms -- let's just talk about bookings overall, Dave. They were up in local currency by 6%. But when you take the FX headwind, they were down overall in U.S. dollars. And what I mentioned was we expect a strong bookings quarter in Q2. The question that Tien-Tsin had was about the Consulting bookings expectation for Q2, and we expect strong bookings in Q2. I just want to remind you that that's where we -- that was also the quarter though, last year, where we had our record Consulting bookings last year of about \$11 billion. And so I just wanted to set the expectation that it will be strong, it may not surpass the \$11 billion that we did last quarter, last year in Q2.

**Operator**

Your next question comes from James Faucette with Morgan Stanley.

**James Faucette, Morgan Stanley**

Great. Thank you very much. Just wanted to follow-up on the V&A question, and I completely get the point around valuations and wanting to look at the best companies. But are there any specific capabilities we should think about that you would be targeting especially as you're seeing clients evolve a bit their needs in the current environment?

**Julie Sweet**

So a few things, right? So first of all, since the pandemic began, we've been very focused on building scale in markets around cloud, data and AI because that's so critical to building the digital core. So last quarter, we bought something in the Nordics, for example, that was all about getting scale. We bought something in [the Netherlands] [corrected] around mainframes because that's a very specific skillset that is relevant to moving some industries like financial services off of these core systems. And so we'd expect to continue to invest there.

And we did this quarter, for example, with eLogic and with Sentia, these were acquisitions that we did this quarter, all in sort of the cloud and cloud platform technology space. Data and AI solutions will continue to be important. And again, we try to focus both on scale and getting scale in market. So we made a really exciting acquisition in Japan this quarter around data and AI solutions because we see that such a big market for us and we see a lot of interest, and it was just a great company.

So if you think about what clients are focused on building their digital core, that's going to continue to be a focus. The next digital frontier, so supply chain, digitizing supply chain and manufacturing, so we made a couple of acquisitions there this quarter, MacGregor, Stellantis. And so really, we keep very close to our strategy, which is tied to clients. They want reinvention across the enterprise, so continuing to build areas like in the digital frontier, making sure we've got scale and all of the capabilities needed across the digital core will continue to be a focus.

**James Faucette, Morgan Stanley**

That's great. And then just as a quick follow-up, and it's kind of related to accounting or some

of the accounting metrics that are moving. Looking at DSOs, you guys almost always have industry-leading DSOs. But for you specifically, it looks like it's a little bit higher than last year. Can you talk us through puts and takes and what's moving that around? And should we expect to see improvement from here? Or is this something, just from a monitoring working capital, that this is the kind of level we should expect going forward?

**KC McClure**

Yes. Thanks for the question. And you're right, we do have industry-leading DSO, and we continue to have industry-leading DSO. So let's talk about what we're seeing this quarter. So we had 48 days this quarter. And I think as you know, we do have a structural uptick every year from Q4 to Q1. And this is about a day of higher uptick than we would traditionally have, but it's nothing that we're concerned about. And we do feel really good about our DSO coming down by the end of the year. As I mentioned in our free cash flow guidance at the beginning of the year, we did allow for a couple of days uptick in DSO, and that's what we still expect.

And maybe I'll talk a little bit about then, free cash flow. So when you take a look at that in free cash flow and our expectations, overall for free cash flow for the year, you heard me reiterate the free cash flow guidance for the year. So that allows for us to have a few days uptick in DSO. And so we still really -- feel that the 1.1 is really very strong free cash flow guidance, and it takes into account and increased DSO for the year.

**Operator**

Your next question comes from the line of Bryan Bergin from Cowen.

**Bryan Bergin, Cowen**

I wanted to follow up on the growth outlook and a little bit of the client behavior. So I'm curious if you've seen any actual change in backlog or prior book sales being deferred or potentially coming out there? So I hear you on the macro uncertainty, and I'm curious if there are incidents of clients actually taking work out versus more so dragging their feet on new bookings?

**KC McClure**

Yes. So I -- we haven't seen any real change. What you're talking about is what's happening with the work that we've already sold, we're not seeing any real change in anything that's already in our book of business in terms of what's happening with the macro. And Julie, I don't know if there's anything else you want to add?

**Julie Sweet**

Yes -- no. And really I think what's important is that regardless of industry or country, the focus still is on transformation, right? There is nobody saying, "I'm going to change less," right? Unfortunately, the companies are having -- sometimes are having a harder time, right, doing what they'd like to do because they're under pressure. And again, that's where our relationships really matter because we're the trusted partner, right? And if you got to know that whatever you are going to spend money on, it's going to have to deliver value. it's a flight to quality, right?

And so we've seen that since the early days of the pandemic, and it continues in this environment. And remember, that the idea of total enterprise reinvention is things are connected. Like I gave the example of the European grocer, right? One company that can transform IT, do an ad strategy, provide personalized customer experience and lower overall cost, right, that is not easy to do, and it requires industry expertise and expertise in many parts of the enterprise. And that's really where our resilience comes from.

And by the way, also our ability to pivot, right, to pivot. And that particular one started as a cost play, and we were able to show the client how not only could they reduce cost, but they could actually drive more growth by connecting these things and understanding the intersections. And that's what we're focused on, right? We always start with what do our clients need. And right now, they need to be more efficient, they need to do more with less, they need to optimize what they have and we're investing.

And I will tell you that one of the things that's so critical are assets and solutions. Because I was just doing orals earlier this week and I always ask the client what do you think about what you've seen? And they're like, it's amazing like you have this myWizard platform, it's got data, it's got AI. It's stuff that we can't even begin to build, and you not only have it built but it's been used in thousands of clients. So that's the kind of place where our ability to invest, not just now, but over the last decade, really matters to clients. And compared to anybody out there, right, the amount of money that we're putting in acquisitions and solutions is really tremendous in driving value for our clients.

**Bryan Bergin, Cowen**

Okay. That's good to hear. Follow-up, just geographic and vertical growth performance was quite broad-based here. Did you expect that to continue through the balance of the year? And I was particularly surprised on Europe and Growth Markets actually outperforming North America, is that going to persist or do you see that changing?

**Julie Sweet**

By the way, my CEO of Europe and my CEO of Growth Markets like to point that out to their friends in North America as well. So a little good-natured competition there. But KC, why don't you...

**KC McClure**

Yes. And so in terms of what we expect to see for the year, we do expect to see Europe and Growth Markets for the full-year be in the double-digit range. And we do expect that North America, which is -- as the CEO of North America says, "I have a much, much bigger business," will grow at a mid to high single-digit range for the year. And Julie, I don't know if there's anything else that you want to add on...

**Julie Sweet**

Yes, on North America, I mean, they had unbelievable growth last year on a huge book of business. So growing anywhere in the [mid to high single digits] [corrected] again this year is quite impressive. I mean their growth was 26% last year. So we are very pleased with, kind of, the growth we see ahead.

**Katie O'Connor**

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 Ashwin Shirvaikar from Citi

**Ashwin Shirvaikar, Citigroup**

Thank you. Let me say a good quarter in a tough environment and also Happy Holidays. Let me -- I'll ask both the questions together. The first one is I see the sequential hiring growth, and obviously, many other tech companies cutting back. And I'm wondering if your positive hiring is partly a function of the rapid decline in attrition, so you might not have put the brakes on hiring yet? So what should we expect for hiring? And could you comment on wage inflation?

**KC McClure**

Yes, sure. Ashwin, nice to speak with you. So just in terms of what we expect for hiring, first of all, as you know, our ability to manage supply and demand is a core competency of ours, and we're always focused on it. And so we did hire about -- we added about 17,000 people this quarter, as you mentioned. And we will continue to hire for the specific skills that we need. I think I made reference to that earlier, which means we may not need to hire as many people as we go throughout the year, but we'll balance that as we go through.

And on wage inflation, I'll just go back to what we said when we set guidance, we did see wage inflation continuing. We do have comp increases that are kicking in that we've planned for, of course, and included in our pricing. But they are higher than they've been, and that's a statement across all industries, all geographies. And of course, that we're no different in that regard.

**Ashwin Shirvaikar, Citigroup**

Understood. And then on bookings, obviously, a good quarter overall. And you've referenced the underlying sort of Consulting versus Managed Services a couple of times. I want to kind of take that forward and ask the revenue conversion question because, obviously, Consulting, one might think of shorter cycle and it gets into revenue faster; Managed Services, longer ramps and things like that. Is that a fair observation still just looking at what you signed? And how might that affect sort of the calendar 2023 layout, if you will?

**KC McClure**

Yes. I think here's the way I would look at it. In terms of when you look at Managed Services and Consulting, as a broad statement, you have more the benefit of Managed Services is that you have already sold a fair amount of work, right? So while they are longer deals and they may -- the deals that you sell in that quarter may turn into revenue a little shorter than they would in a consulting sale, for example, which is a typically shorter duration, you have more work already sold as you go into a quarter.

So there's a terrific benefit to that, which is why we like this diversity, right? We have that as well as in Consulting. They do -- the length and shape of them really do vary. And when you look at it overall, Ashwin, if you go back, and I know you followed us for a long time, and just look at our mix, of Managed Services to Consulting, it doesn't really change. The bookings really don't change much as you go throughout our history in terms of the percent -- the proportion of each.

**Julie Sweet**

Yes. I mean this year, the bigger shift that we called out is just the smaller deal volume that's tied more to the macro and the -- sort of the shift on to these mega transformation deals, some of which are Consulting, some of which are Managed Services, they just bleed through revenue differently. So that's more of the impact this year that we see right now. Okay. Well, thank you very much, and Happy Holidays.

**CONCLUSION****Julie Sweet**

Good. So in closing, I want to thank all of our shareholders for your continued trust and support and all of our people for what you do every day. And I'd like to wish everyone a happy and healthy holiday season. Thank you.



**Operator**

That does conclude your conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.