

Accenture

Third Quarter Fiscal 2023 Financial Results

Conference Call Transcript

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Katie O’Conor

Thank you, operator, and thanks, everyone joining us today on our third quarter fiscal 2023 earnings announcement. As the operator just mentioned, I’m Katie O’Conor, 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 third quarter. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the fourth 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. 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, Katie, and thank you to everyone joining today, and thank you to our people around the world for their dedication and commitment, which is how we are able to consistently deliver 360 degree value for all our stakeholders -- our clients, our people, our shareholders, our partners and our communities.

Turning to the quarter, I will start with the financials. While the macro environment continues to be uncertain overall, in Q3, we delivered solid revenue and sales with very strong profitability and very strong free cash flow while continuing to significantly invest in our business.

Now getting into the highlights, we had bookings of \$17.2 billion, including 26 clients with quarterly bookings greater than \$100 million, bringing the total year-to-date to 85, which is 11 more than the same time last year. We delivered revenues of \$16.6 billion, representing

5% growth with North America growing 2%, Europe at 7% and Growth Markets at 9%, all in local currency, bringing us to \$48.1 billion of revenue at 10% growth fiscal year-to-date.

Revenues were impacted by lower-than-expected small deal sales, especially in strategy & consulting and systems integration, and lower-than-expected results in the communications, media and high-tech industry group for the quarter. Excluding CMT, our business grew 8% globally, 7% in North America, 9% in Europe and 10% in Growth Markets in local currency.

We expanded adjusted operating margin by 20 basis points, grew adjusted EPS 14% over last year and delivered free cash flow of \$3.1 billion. And over the past 11 quarters, we have operated at 91% or higher utilization, leveraging our digital enterprise to connect our sales, staffing, hiring and skill needs to make proactive real-time decisions.

We are on track with the business optimization actions to lower costs in fiscal 2024 and beyond, while continuing to significantly invest in our business with 5 acquisitions in strategic areas this quarter, bringing the total investment in acquisitions year-to-date to \$1.3 billion. We invested in cloud, data and AI with the acquisition of Nextira in North America, Objectivity in the U.K. and Einer in Norway. We also invested in sustainability with the acquisition of Green Domus in Brazil, and in modern ERP services with Bourne Digital in Australia. We continue to take market share, growing about 2 times the market.

Now turning to other aspects of the 360 degree value we delivered in the quarter. We continue to invest in learning for our people with 9 million training hours in the quarter, representing an average of 13 hours per person, giving them the skills to grow as our clients' needs evolve. We are incredibly pleased that we're recognized as a top 10 places to work in 7 countries: Argentina, Brazil, Chile, India, Mexico, the Philippines and the U.S. Collectively, these countries represent nearly 70% of our people.

Vibrant communities are important for our business success and digital skilling helps ensure vibrant communities thrive. In collaboration with L'Oreal and our NGO partner, Shambhav Foundation, we are supporting women in India to build digital literacy skills alongside the technical skills needed to access jobs in the beauty industry. Together, we have collectively created sustainable livelihoods for 2,500 women across 10 states in India, accelerating quality, delivering social impact in the community and continuing our commitment to embed diversity and inclusion in everything we do.

Finally, this year, we are proud to earn the #22 position on BrandZ's prestigious Top 100 Most Valuable Global Brands list, our highest rank to date.

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 are pleased with our third quarter results and we are on track to deliver or exceed all aspects of our guidance provided in September on an adjusted basis.

Now let me summarize a few of the highlights for the quarter. Revenues grew 5% in local currency, driven by high single or double-digit growth in 7 of our 13 industries. While we've been highlighting the pressures in our CMT industry group all year, this quarter, the revenue

was lower than expected with a decline of 8% in local currency. We delivered adjusted EPS in the quarter of \$3.19, reflecting 14% growth over EPS last year. Adjusted operating margin was 16.3%, an increase of 20 basis points over Q3 last year, and includes continued significant investments in our people and our business. Finally, we delivered free cash flow of \$3.1 billion and returned \$1.5 billion to shareholders through repurchases and dividends. Year-to-date, we've invested \$1.3 billion in acquisitions, primarily attributed to 20 transactions.

With those high-level comments, let me turn to some of the details, starting with new bookings. New bookings were \$17.2 billion for the quarter, representing growth of 4% in local currency with an overall book-to-bill of 1.0. We were very pleased with our 26 clients with quarterly bookings over \$100 million. Consulting bookings were \$8.9 billion with a book-to-bill of 1.0. Managed services were \$8.3 billion with a book-to-bill of 1.1.

Turning now to revenues. Revenues for the quarter were \$16.6 billion, a 3% increase in U.S. dollars and 5% in local currency, reflecting a foreign exchange headwind of approximately 2.5% compared to the approximately 3.5% headwind provided in our business outlook last quarter. Consulting revenues for the quarter were \$8.7 billion, a decline of 4% in U.S. dollars and 1% local currency. We see the same level of Consulting decline in Q4. Managed Services revenues were \$7.9 billion, up 10% in U.S. dollars and 13% in local currency.

Taking a closer look at our service dimensions. Technology services grew high-single-digits. Operations grew double-digits, and we expect high single-digit growth in Q4. Strategy and Consulting declined high-single-digits this quarter, and we see declines continuing in Q4. Regarding our market share, we extended our leadership position with growth estimated to be about two times the market, which refers to our basket of publicly traded companies. Now as a reminder, we assess market growth against our investable basket, which is roughly two dozen of our closest global public company competitors, which represents about a third of our addressable market. We used a consistent methodology to compare our financial results and theirs, adjusted to exclude the impact of significant acquisitions through the date of their last publicly available results.

Turning to our geographic markets. In North America, revenue growth was 2% in local currency driven by growth in Public Service for our U.S. federal business, Health and Utilities. These increases were partially offset by declines in Communications & Media, High-Tech, Software & Platforms and Banking & Capital Markets. In Europe, revenue grew 7% in local currency, led by growth in Banking & Capital Markets, Industrial and Public Service. Revenue growth was driven by Italy, Germany and France. In Growth Markets, we delivered 9% revenue growth in local currency, driven by growth in Public Service, Chemicals and Natural Resources and Banking & Capital Markets. Revenue growth was driven by Japan.

Moving down the income statement. Gross Margin for the quarter was 33.4% compared with 32.9% for the same period last year. Sales and Marketing expense for the quarter was 10.5% compared to 10.3% for the third quarter last year. General and Administrative expense was 6.5% compared to 6.5% for the same quarter last year.

Before I continue, I want to note that in Q3, we recorded \$347 million in costs associated with the business optimization actions we announced last quarter, which decreased operating margin by 210 basis points and EPS by \$0.42. This quarter, we also recognized a

gain in our investment in Duck Creek Technologies, which impacted our tax rate and increased EPS by \$0.38. The following comparisons exclude these impacts and reflect adjusted results.

Adjusted operating income was \$2.7 billion in the third quarter and adjusted 16.3% operating margin, an increase of 20 basis points from operating margin in the third quarter of last year. Our adjusted effective tax rate for the quarter was 24% compared with an effective tax rate of 27.1% for the third quarter last year. Adjusted diluted earnings per share were \$3.19, compared with diluted EPS of \$2.79 in the third quarter last year. Days source outstanding were 42 days compared to 42 days last quarter and 44 days in the third quarter of last year. Free cash flow for the quarter was \$3.1 billion, resulting from cash generated by operating activities of \$3.3 billion net of property and equipment additions of \$142 million. Our cash balance at May 31 was \$8.5 billion compared with \$7.9 billion at August 31.

With regards to our ongoing objective to return cash to shareholders, in the third quarter, we repurchased or redeemed 2.8 million shares for \$789 million at an average price of \$279.65 per share. As of May 31st, we had approximately \$3.5 billion of share repurchase authority remaining. Also in May, we paid a quarterly cash dividend of \$1.12 per share for a total of \$708 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 August 15th, a 15% increase over last year.

So in closing, we remain committed to delivering on our long-standing financial objectives, growing faster than the market and taking share, generating modest margin expansion and stronger earnings while, at the same time, investing at scale for long-term market leadership, generating strong free cash flow and returning cash to shareholders.

Now let me turn it back to Julie.

Julie Sweet

Thank you, KC. As we look at demand in our larger deals, we continue to see two common themes that I've highlighted before. First, the rapid rise of generative AI interest among our clients highlights yet again that all strategies lead to technology, particularly cloud, data, AI and security. And second, companies remain focused on total enterprise reinvention as they execute compressed transformations to achieve lower costs, stronger growth, more agility and greater resilience faster.

Now let me give you more color on the quarter to bring this to life. Starting with the digital core, our cloud momentum continues with very strong double-digit growth in Q3 as clients prioritize building a strong and secure foundation for reinvention. We have been working with ENI, a global energy company, for more than 30 years. Now we are helping them as they continue their hybrid cloud transformation and embark on a total enterprise reinvention strategy with a focus on sustainability, digital transformation and security. We are managing their IT infrastructure and telecommunications integration and helping implement new operating models, all hosted in the ENI Green Data Center, one of the largest data bunkers in the industry to securely hold the company's data. The ENI Green Data Center houses one of the most powerful nongovernmental supercomputers in the world, enabling the highest use of data across the value chain from exploration and production to the energy of the

future. New operating models will help exploit the full value of data, AI and cybersecurity for faster adoption of new business processes. This transformation is the first step toward creating a secure digital core that will accelerate ENI's energy transition, drive innovation in AI and R&D and build even greater resilience.

Clients are also working with us to do multifaceted compressed transformation that utilize all of our deep industry and functional expertise in our S&C services, along with our outstanding technology services. We are helping DuPont, a global multi-industrial specialty products company, with a compressed transformation to standardize their finance processes and achieve operational excellence. Building on our trusted relationship of over 35 years, we are now supporting our client with its strategic pivot to innovation-based growth across electronics, sustainable water and protection solutions, industrial technologies and next-generation automotive. We've been supporting their transformation to an agile, cloud-based IT infrastructure to maximize data access, drive efficiency and modernize their landscape. Our work with DuPont is focused on achieving greater resilience, reducing costs and increasing revenue growth and shaping its portfolio through M&A with industry-leading innovation for long-term success.

With these companies expanding their digital footprint, and cyber risks widening, Security continues to rise in importance as a fundamental part of the digital core with very strong double-digit growth in Q3. We are working with a food and beverage company to strengthen their cybersecurity and prevent vulnerabilities along the supply chain. Building on previous operations transformation work, we are now providing managed security services, which will cover perimeter security, detection and response as well as threat intelligence and monitoring dark web activities. We also will provide day-to-day identity, data and privacy management, helping provide a holistic security approach for our client.

We are helping a global universal bank future-proof their cryptographic landscape and corresponding risks for over 1,000 applications, procedures and data. Based on the analysis, we will develop and implement an end-to-end mitigation strategy, including evaluation of solution vendor strategies, mitigation principles, as well as change management procedures. We will also design and implement post-quantum methods and new architecture blueprints, which will help scale the solution, all to help the bank achieve post-quantum computing readiness.

Our Managed Services continued to grow double-digits in Q3, demonstrating the relevance of our approach to run, digitize and transform our clients' operations. We're providing a global health care and insurance company with managed services to help run its complex claims and membership processes. As part of our long-standing relationship with the company, we will improve the efficiency and quality of these tasks and simplify the customer journey, ensuring members can easily access the support they need when they need it. Its employees will now have more time to focus on boosting customer satisfaction by better serving its millions of customers around the world. A new cost solution has also been introduced to determine fair and accurate pricing for the company when purchasing services and products from vendors to reduce costs across the business.

We recently worked with a major media brand to launch a streaming platform that will help attract new subscribers, expanding their content portfolio and power-targeted broadcasting and advertising offerings, all while lowering costs. We helped engineer aspects of the new platform from the content supply chain to the player experience, ensuring that customers have a seamless viewing experience across all devices and platforms and enabling the

company to use data insights to continually enhance its platform. We delivered the program as part of a managed services arrangement, demonstrating the industry and engineering innovation that we bring to help clients reinvent their business with cloud, data and AI.

As clients continue to reimagine and prioritize customer experience, Song experienced strong double-digit growth again in Q3. We are partnering with Virgin Media O2, a British media and telecommunications company, to reimagine their customer experience. Accenture Song will design a new, more predictive and personalized customer journey, enabled by an AI-powered cloud-based digital core. Customer care journeys will be omnichannel, combining customer calls, chat and instant messaging to increase first-time resolution and upselling, leading to greater customer satisfaction. We also will deploy our managed services capabilities to support contact center activity using AI to provide timely agent assistance and route calls intelligently to drive precision and reduce call volume. Our work will help build brand loyalty supporting Virgin Media O2's mission to be a more customer-first business.

We see continued demand for our Industry X capabilities, which grew strong double-digits in Q3. We are working with one of the world's leading consumer products companies on a transformation of its manufacturing practices to achieve energy savings. We are developing a comprehensive program to collect and analyze energy consumption data from their production plans and use data-driven analytics to identify energy savings and greenhouse gas reduction opportunities. We are also helping to track energy efficiency gains and deliver value through operational improvements in the manufacturing process.

As clients progress on their total enterprise reinvestment journeys, talent is at the forefront. we are working with an international consumer goods and services provider in the European market on a digital transformation of its core human resources organization and talent acquisition processes. We will design and implement an approach that includes program management, process design, training and development and additional services. Together, we will create greater efficiencies in the human resources function, leading to a data-driven culture focused on better employee experiences.

Now stepping back, our strategy is to be at the center of our clients' business and help them continuously reinvent themselves to reach new levels of performance and to set themselves apart as leaders in their industries. And our clients are at different starting points. All are interested in AI, and particularly, generative AI. But most recognize the work ahead of them to get their data, people and processes ready for AI. To reinvent requires a strong, modern digital core. And as they embark on this journey, clients are looking to us for our unmatched global scale, deep industry and functional knowledge, breadth of services from strategy and consulting to technology to managed services.

With that context, I want to turn to generative AI and AI more broadly. No previous technology wave has captured the attention of leaders and the general public as fast as gen AI. We are now embarking on the age of AI, and companies will need to reinvent how they operate with AI at the core. And it is also early. Think of it as the cloud over a decade ago. Foundation models and products based on them are still maturing with many products announced but fewer at the general availability stage and ready for wide deployment. And with our position as the largest partner with most of the major technology companies, we are at the center of helping our clients navigate their choices in the evolving landscape.

We've been investing in AI for years. And so while it is early days, we see generative AI as a key piece of the digital core and a big catalyst for even bigger and bolder total enterprise

reinvention going forward. In fact, in a survey of global executives that we completed just last week, 97% of executives said gen AI will be transformative to their company and industry. And 67% of organizations, planning to increase their level of spending in technology, are prioritizing investments in data and AI.

Our approach to AI is clear. Just as we have successfully done with cloud, we are investing to take an early lead, and position for the opportunity ahead. Last week, we announced a \$3 billion investment in AI, a big step to accelerate our clients' reinvention journey, which includes us doubling our data and AI workforce from 40,000 to 80,000 strong, including the expansion of our center for advanced AI that today has over 1,600 generative AI experts bringing new assets such as our AI Navigator for Enterprise to life, and developing new GenAI-powered industry solutions. And across this all, we are leading with responsible AI to be the most trusted source in helping our clients mitigate the risks as they drive value.

And this isn't just about tomorrow. We have sold over 100 generative AI projects over the last 4 months. Let me give you a flavor of these across a few industries. We are working with Mitsui Sumitomo Insurance, a Japan-based subsidiary of MS&AD Insurance Group Holdings, to improve customer service by using generative AI and simplify operations for accident response. The generative AI solution will draw from the company's knowledge base, including policy causes and related laws and regulations, which will generate appropriate response plans in a timely manner, dramatically improving the accuracy and speed of explanations to customers.

We're working with a global broadcast company to explore how generative AI can be used to drive audience engagement and growth through deeper and more personalized customer experiences. Together, we recently launched testing that leverages generative AI and large language models to explore how we can automatically create content for the company's customer-facing platforms. The content will help enhance engagement, grow the consumer base across new coverage areas and channels. We believe it will demonstrate how generative AI can be used to create content at scale for a wide variety of experiences and events.

We are working with LyondellBasell Industries, a leader in the chemicals industry, to increase its enterprise data and analytics capabilities and help unlock new value. We will develop a strategic data-led digital transformation program across multiple parts of the business and embed new capabilities in areas like sustainability, customer data, digital manufacturing and generative AI to drive insightful and predictive decision-making.

Companies are coming to us for help with the strategy and the business case to understand how and where to apply AI, and GenAI specifically, to get their digital core in shape, to help assess which ecosystem partners and models to use, to rewire their processes to be AI-driven, to upgrade and reskill their talent with new ways of working and to navigate the risks and challenges responsibly. In short, we believe clients need our full range of services, and we are well positioned to be the leading trusted AI partner for the enterprise as they move from exploration to experimentation to reinvention.

Over to you, KC.

KC McClure

Thanks, Julie. Now turning to our business outlook. For the fourth quarter of fiscal '23, we expect revenues to be in the range of \$15.75 billion to \$16.35 billion. This assumes the impact of FX will be about flat compared to the fourth quarter of fiscal '22 and reflects an estimated 2% to 6% growth in local currency. For the full fiscal '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 4% compared to fiscal '22. For the full fiscal '23, we now expect revenue to be in the range of 8% to 9% growth in local currency over fiscal '22, which assumes an inorganic contribution of about 2%.

We continue to expect business optimization costs of \$800 million in fiscal '23 to reduce EPS by \$0.96. The gain on our investment in Duck Creek Technologies will increase EPS by \$0.38. Our guidance for full year '23 excludes these impacts. For adjusted operating margin, we now expect fiscal year '23 to be 15.4%, a 20 basis point expansion over fiscal '22 results. We now expect our adjusted annual effective tax rate to be in the range of 23.5% to 24.5%. This compares to an effective tax rate of 24% in fiscal '22. We now expect our full year adjusted earnings per share for fiscal '23 to be in the range of \$11.52 to \$11.63 or 8% to 9% growth over fiscal '22 results.

For the full fiscal '23, we continue to expect operating cash flow to be in the range of \$8.7 billion to \$9.2 billion. We now expect property and equipment additions to be approximately \$600 million and free cash flow to be in the range of \$8.1 billion to \$8.6 billion. Our free cash flow guidance reflects a very strong free cash flow to net income ratio of 1.1 to 1.2. Finally, we 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 our cash to our shareholders.

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

Katie O'Connor -

Thanks, KC. (Operator Instructions) Operator, would you please provide instructions for those on the call?

QUESTIONS AND ANSWERS**Operator**

(Operator Instructions) We'll go to the line of Lisa Ellis with MoffettNathanson.

Lisa Ellis, MoffettNathanson

Let's dive in on the Strategy & Consulting. I know it was a high single-digit decline this quarter. That -- just looking back at your comments from last quarter, I think that came in a little bit softer than you expected. But then you also called out many new projects coming in related to GenAI and other technologies. Can you just talk a little bit about kind of what's changed, what that evolution looks like and kind of what's your confidence level in the time horizon that we'll see Strategy & Consulting improve over the next couple of quarters?

Julie Sweet

Sure. Thanks, Lisa. So I'll first give some color on that. So the big difference in our expectations from last quarter and where we ended up, really was all in the small deals. And we saw further -- they came in lower than we expected, and we saw that extend to Europe and the Growth Markets. Now that was both in S&C and systems integration. But that's the big reason that we have a difference in sort of where we thought where we would be this quarter. Now, our job is to continue to pivot to higher -- where there is higher-growth, and we're working on that in digital manufacturing, supply chain, data and AI. But that will take a little time. And what we're seeing is that there's a lot of extensions going on in small deals, but it's the newer, small projects, while at the same time, we continue to have very strong bookings and interest and huge opportunity in transformations.

So I think our clients are kind of holding back on the small stuff and doing the bigger stuff, which obviously converts to revenue differently. But you see where Strategy & Consulting makes a big difference there, like in the DuPont example that I gave in the script where you have to have so much expertise in the industry as well as the functions as well as technology. What that means is that it is going to take a little while for the turnaround. And we're not going to go to next year because we really want to see how Q4 evolves, and KC will give a little bit of color on how we are thinking about our Q4. And what I would also say is that things like GenAI are a big opportunity, but it is early. So we did in the last four months 100 projects. That represents about \$100 million in sales. That's kind of the average size of those projects where it is. And so we're going to continue to pivot there, but it just takes a little bit of time.

So why don't I let KC give you a little color on how we're thinking about Q4.

KC McClure

Yes. Great. Thanks, Julie. Yes. So let me just kind of maybe step back and look at Q4 and the overall guidance for the full year. So first, I did mention this, but I just want to just reiterate that we are on track for our business optimization actions. So we're going to do about \$800 million of costs for the full year '23. Additional color is that for Q4, as we look at bookings, we think they'll be about the same as what we did in Q3 of this year and have about the same complexion.

Julie talked a bit about small deals. What I will tell you in terms of our revenue guidance for Q4, which is 2% to 6%. At the top end of our revenue guidance, that reflects some improvement in small deal performance, while the bottom end allows for some further deterioration. And we commented also in our scripts about CMT. And so within our overall range of 2% to 6%, we do allow for CMT to get a little bit worse.

And then lastly, to bring it on home as it relates to North America, because these two factors do impact North America performance. In the context of our overall 2% to 6% range for the quarter -- North America, which was 2% growth this quarter -- it would likely be flat around the midpoint of our guidance range and reflect a slight decline at the bottom of our range. And as Julie mentioned, obviously, we will give you more color, as we always do on next year when we get into September, and we'll see how Q4 plays out.

Lisa Ellis, MoffettNathanson

Terrific. And then maybe for my follow-up, maybe a more strategic question. I mean, Julie, you talked a lot about GenAI in the prepared remarks, particularly around the revenue opportunities that you're seeing in your clients. But can you give your view on how you see GenAI impacting the IT services industry overall? Like, a lot of people make an analogy to sort of the impact of offshoring on the industry and sort of other big sort of step function changes to the operations and the kind of composition and the way IT services is done. Can you kind of give your latest perspective on that, how you see it affecting Accenture and your industry more broadly?

Julie Sweet

Sure. Yes. And I think another good analogy actually, maybe even less so than the offshore, is more about like SaaS, right? Because you remember when we talked about when SaaS came, what would be the opportunities. And there was a lot of worry about how SaaS would interrupt IT services. And obviously, it's been just a huge opportunity. So I think, Lisa, if you think about this, so obviously a big opportunity for us to help our clients. We see it as two other areas of opportunity. So the first is, help our clients, big opportunity. The second is the opportunity for us to improve the delivery of services to our clients, right? Now what is -- and that, we think, is a huge opportunity for us.

So think about it first in context of Managed Services. Every year, right, we have to find at least 10% of productivity. So we talk a lot about our platform, things like myWizard and that. That's all AI-enabled. Just year-to-date in operations, not using GenAI, right, we have automated 13,000 jobs and then we've reskilled those people and redeployed them. Our business model requires us to get at least 10% productivity year in and year out. As we're getting to the maturity of automation and AI before generative AI, we see generative AI as our ability to continue to give at least that 10% productivity year in and year out. So in the Managed Services area, we see that more as the ability to continue doing what we have to do as kind of the next generation of technology. Where we're super excited is in software development that is more around our systems integration and our big transformations around platforms because while we do automate there, we think GenAI may provide a real opportunity to do even more. And remember, our strategy is to deliver compressed transformations. So the more that we can find ways to deliver faster and less costly, that's going to be a big differentiator. So we're leaning in hard.

At the same time, these technologies are really early. And so for example, we're doing a lot of experimentation now. It's really good for things like documentation, but complex integrations, being able to use them for highly architected systems, which is what our large enterprises do -- GenAI isn't there yet, right? So we think it's going to take some time. We also don't yet know the cost. And one of the things we are really -- a lot of clients are looking at us for is to help them with the business case because most of the studies, including our own, are all about what's potentially [the] uses of it. But because these products aren't out yet, we know that -- it's much more expensive to use GenAI, it's much more energy [intensive] [corrected]. And so the actual ROI -- so there's the art of the possible, but what's actually the return -- it's still really early days. So we're very excited

that we can get new kinds of productivity, particularly on things like consulting and systems integration but it's early days yet. And we are leaning in because we think it's a big opportunity for us to differentiate. And that's why we are investing \$3 billion over the next three years because we think this is like another Cloud First moment where we were out early, we invested at scale.

The last thing I would say is there's also an opportunity for us to use it in our own enterprise. And of course, part of our strategy is to be our own best credential. And we're prioritizing it, using it wherever we think we can use it for us and then take it to market to help our clients. So overall, we think that like prior big changes, right, first, the change to cloud, right, and before that to servers, that it always creates new opportunities as long as you have the ability to invest, like we do; you've got leading partnerships, we've just announced yesterday expanded partnerships with all of the three big cloud providers; and you have that agile innovation mindset that says embrace change and move fast.

Operator

We'll go next to the line of Ashwin Shirvaikar of Citi.

Ashwin Shirvaikar, Citigroup

I was hoping that you could provide a little bit more information. I know you said that you'll comment specifically on fiscal '24 after -- in September as you normally do. But that seems to be one of the primary questions that people are asking. So more about the framework of how you're going about the planning process for that, just given that there are so many moving parts when we kind of think of macro, when we think of AI, when we think of headcount trends, the tough comps in the first half. Maybe just kind of framework that for us, and that would be quite helpful.

Julie Sweet

Sure. So just a few things, Ashwin. So first of all, the most important thing right now just as a framework is stay close to our clients, right, and really understand. And the thing is our clients do need ways to get value in the short term as well as to transform. And so we're working hard on finding new ways to get value to them faster. That's where the GenAI, for example, comes in. And so over the next quarter, we're going to be developing new opportunities, new campaigns, new ways of pushing out our investments in GenAI to help us address the small deal pressure that we're seeing.

We don't have a crystal ball that is going to say what the economy is going to do, how fast clients are going to get comfortable. Because remember, we saw this over this quarter [lead] to more industries, including industries that are doing well. There's just a level of caution right now. And so how we're looking at it is there are certain things we can't control. Focus on not only doing the big, large transformational deals, but finding new ways to develop returns faster, which is why the work we're doing on GenAI is so important. And you're seeing that kind of early focus with 100 projects in four months. So we're going to keep doing that.

Secondly is stay focused on the large transformational deals, right? This provides a base level of resilience in our business. So we've got to absolutely try to do -- maximize the small deals, but it is really important that we continue to be the transformation partner of choice. And that is where bringing together all of these services and making sure that we've got the right proposition is super important. So that is a core part of our strategy. And so that's really how we're thinking about it.

Ashwin Shirvaikar, Citigroup

And I guess the next question is with regard to hiring expectations. And there's a near-term aspect to that and the longer term so let me ask both. Near term, just kind of given what you said with regards to macro and so on and, of course, the headcount cuts announced a couple of quarters back, what should we expect in the next one or two quarters? And the longer-term question is, with AI, do you think that headcount growth dissociates from [revenue] growth trends over time?

Julie Sweet

Let me just take the second one first, right, is, again -- and we've been talking about this for years, right, because AI has been such a big part of our strategy in automation, right, is that we will continue to manage it just like I talked about in my last answer, like where we've already automated 13,000 jobs [year-to-date] [corrected] and we've reskilled. And so we will continue to manage that headcount as a result of AI in the way that we've been doing it for years. So no real change in that because we have a digital enterprise system that looks at what we need and sales. And what's really core is that we can reskill people as they are being freed up, and then we can adjust how much we have to hire. And of course, with attrition that in our industry is high relative to other industries, it gives us a lot of flexibility over time to get that people hiring right. So that's how I would think about it.

And then for the way that we're going to hire, we saw a year-over-year increase of about 3% over last year. 11 consecutive quarters of 91% utilization. So you should just expect that every quarter, we're going to manage carefully that headcount based on where we see the growth and to do that well. And I think we've proven our ability to do that.

KC McClure

That's right. And I would just add just maybe on Q4, in particular. As Julie just talked about, we did not add any heads really, any people between Q2 and Q3, which is what we expected. And then Q4, we don't really see a need to grow our overall headcount as we continue to focus on the automation and reskilling that Julie talked about.

Operator

We'll go next to the line of Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang, JPMorgan

I just want -- I think you went through the small deal outlook to Lisa and Ashwin's question. So how about large deals? Can that momentum continue? I think you're up from, what, 17 to 26 large deals year-over-year. So just curious about...

Julie Sweet

Yes, large deal momentum is continuing. Yes.

Tien-Tsin Huang, JPMorgan

Yes. So yes, -- no, I'm just going to ask that, how does that look going into the fourth quarter here? And are signed deals converting on time? My follow-up to that.

Julie Sweet

Yes. So as KC said earlier, our bookings are going to be about the same, and that includes a lot of momentum in large deals, right? So we saw 26 clients with quarterly bookings over \$100 million this quarter. We're ahead of last year by 11 at this point. We can see -- continue to see that momentum. And we're actually really excited about the demand there, right? Because as you can imagine, things like GenAI are just accelerating the ability to say, "Hey, we have to do bigger deals." And by the way, that may be impacting some of what we're seeing on the smaller deals because we do see more excitement about -- because the thing is the problem with GenAI for most companies is if you don't have the data, you can't use it. And so that gets you right back to the big transformations of your digital core. KC, anything to add?

KC McClure

No, I think that's it.

Tien-Tsin Huang, JPMorgan

So on the AI front, you did mention, I think, the Cloud First. Do you draw that parallel when you guys -- I think that was three years ago, you did a \$3 billion Cloud First investment. That's paid off very well for you. So I'm curious, do you expect a similar return here on the \$3 billion you're putting into AI? How should we measure that? Or is it going to perhaps convert differently in terms of the returns?

Julie Sweet

Tien-Tsin, that's a great, clever way to try to get us to talk about more of the future. But what I would say is we've got a great track record of investing and getting a great return. And so we think that it's going to pay off well.

Tien-Tsin Huang

Yes, no, I like the bet. And the coincidence of similarity there.

Operator

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

Jason Kupferberg, BofA

Just wanted to start actually picking up a little bit on Tien-Tsin's question around the larger deals. It sounds like that's going to persist, the strength there in Q4. And I think that will be at least a few quarters in a row at that point of those larger deals showing relative strength.

Can you just talk just qualitatively about to what extent those provide a foundation for top line growth in fiscal '24? I would assume that those deals generally ramp to full run-rate within, what, two to three quarters or so?

KC McClure

So in terms of what you should think about on our larger deals, they really do -- it really does vary in terms of how they fill in over the quarters going into next year. And sometimes depending on what the work is, particularly in managed services, and there's larger deals, they can go out -- they can go into another fiscal year. So that's no real change in what we have experienced in terms of how the bookings fill in by the, what I would say, the sales category size. What you're seeing is that we do have a good foundation as we look out, right? And we've had a good foundation throughout this year with everything that we've been booking in the transformational deals. But what really does also matter as you get into the year and then into -- closer to the quarters -- is how do you fill in with some of the smaller bookings.

Julie Sweet

If said another way, if small deals don't come back. We're going to have -- that's an important part of sort of understanding, which is why we want to see how Q4 works out before we look at next year.

Jason Kupferberg

Totally understand, totally understand. Let me switch over to bookings just for a follow-up. And by the way, thank you for the level set on AI. It's not too surprising that just a tiny fraction of your total bookings given how it's still early days. But I wanted to actually ask on the Managed Services bookings. Just curious versus your internal expectations how those came in, in the quarter. I know they can be pretty lumpy. But it does seem like looking ahead to Q4, the Managed Services bookings will slow a bit on an LTM basis just based on some of the commentary that you provided around Q4 bookings mix.

KC McClure

Yes. So let me just talk about overall Managed Services. Yes, we're very pleased overall with our Managed Services bookings, right? They were up 9% this quarter and they're up 22% on a year-to-date basis. So we're very pleased with the bookings overall and the result of revenue, which continue to be very strong. We also have a very strong book-to-bill with the trailing of 1.1. And when I talked about Q4, Jason, we'll have about the same complexion of bookings in terms of the breakout of type of work. And I would -- and I will highlight just the continued strength within our bookings of our Operations business, which, again, Julie had a lot of great examples in her script. It really is around when clients are focusing on digitizing their core, cutting costs, our Operations business is a differentiator and obviously very strategic.

Operator

We'll go next to the line of Bryan Keane with Deutsche Bank.

Bryan Keane, Deutsche Bank

Also, just kind of a follow-up on generative AI and the understanding and timing. I get that it's early, but the big question everybody is asking is how long will it take before it moves the needle in bookings and revenue. Is that a couple of years out still? Or is that the time frame and the rapidness of the use of the technology should push it earlier than a normal technology wave?

Julie Sweet

Well, Bryan, I think in general, we think GenAI is going to go faster than, say, cloud, right, which took more like a decade. I would focus on -- so first of all, we're being very rigorous when we talk about GenAI because we're really saying like what are the actual GenAI. The big growth, we think, is going to be in all the companies that then have to get their data done faster. And we're not lumping that together. And so I don't know what others are going to do, but we're really being very pure in saying like, "Hey, this is pure GenAI." And if you think about where companies are, our research shows like only 5% to 10% of companies are mature right now with data and AI, and they're the ones that are really going to be able to use GenAI at scale. We just had this research done that came in last week that hasn't been published yet. About 50% of companies have not started on their data or AI journey, and everything in between -- some are good in data but not AI. They're having a hard time to scale.

So where we think growth is going to come particularly next year, the bigger growth is going to be not in like the pure GenAI, but it's going to be in helping companies finish getting their end-of-life data migrated to the cloud. Because you need your data in the cloud, right? It's going to come in the data strategy and the -- all the governance and getting it architected while some of the stuff around GenAI gets sorted out. So for example, cost is not there yet. And how do you take data from one cloud and there's cost to take it and put it another cloud. All of that, we're going to be working with our clients and our technology partners -- to really create the right business cases. But the growth we think in the near term is going to be from accelerating the digital core. And that's why we feel really good about the bigger transformational deals continuing next year because there's so much work to do.

Bryan Keane, Deutsche Bank

No, that's helpful. And then just as a follow-up, are there M&A opportunities of scale to grow in generative AI? Or is it still early in the days there, so there's not really a lot of M&A you can do?

Julie Sweet

It's really early. I mean, there's a lot of companies popping up as we know, and we're going to continue to scan. But one of the great things that we have is the ability to train, right? We've already trained in the last quarter another 1,000 people in GenAI. And by the way, since 2019, we have been requiring all of our 700,000 people to take a course on AI. So we have a really good baseline. And so we think that it's going to be a lot like when we moved to digital -- a lot of organic. And this is where we're so competitively well positioned because we have great credentials in how we have trained our own table to rotate.

Operator

We'll go next to the line of Rod Bourgeois of DeepDive Equity Research.

Rod Bourgeois, DeepDive Equity Research

You sometimes comment about pricing and contract profitability. So I wanted to ask if you could provide an update on pricing and contract terms, particularly on a like-for-like basis in both consulting and outsourcing.

KC McClure

Yes. Rod, so let me just comment on pricing and what we're seeing. So just let me start with as a reminder, when we talk about pricing that we define that as contract profitability or the margin on the work that we sell. And so what we're seeing in pricing is after five quarters of consecutive improvement in pricing - we mentioned last quarter that it's stabilized. And this quarter, we see the pricing is lower in some areas of our business. I continue to be very pleased with how we are managing pricing, particularly navigating the more challenging wage environment that we've experienced over the last few years. So very pleased with how we're performing in pricing and our overall contract profitability that we have this year.

Rod Bourgeois, DeepDive Equity Research

Okay. Great. And then maybe just to wrap up, as the consulting business has slowed some here, can you talk about what demand themes have slowed the most and maybe the outlook for those themes, I mean, maybe across your various solution areas, like cloud and ERP and security and data. Are there certain of the themes that have slowed the most?

Julie Sweet

Yes. Look, on our consulting on the systems integration side, it's really more a tale about the small deals, right? So what we're seeing is that sort of some of the small things versus the bigger, so a lot of the big transformations are continuing. So that's -- we're not seeing -- I mean, basically anything around the digital core, moving to cloud, all of that's going really well at the bigger levels. It's more about starting new projects right now. And so -- which is why we expect that demand to come back when people are less cautious.

Operator

That will come from the line of James Faucette with Morgan Stanley.

James Faucette, Morgan Stanley

Just a couple of follow-up questions from me here. First, on AI and AI-related projects. How do you envision pricing, project constructs, terms and statements of work to change with the introduction of and adoption of generative AI generally?

Julie Sweet

I mean, we're not anticipating any big changes in those areas.

James Faucette, Morgan Stanley

Got it, got it. And then you mentioned, in reference to generative AI, like the V&A opportunities are pretty small right now and really nascent. But how are you thinking about V&A more generally going forward? Should we expect ongoing, sustained and pretty stable levels of inorganic contribution? Or should we expect there to be some changes as expectations and emphasis shifts a little bit more to AI?

Julie Sweet

Well, no, a couple of things. So first of all, no shift in how we view inorganic, which is a core part of our business model, right? So we expect to get about 2% of our revenue growth from this year from inorganic, and this has been a stable part of our strategy. And I just want to be clear that the shift to AI is just -- let's go back to total enterprise reinvention. What are clients doing? They are reinventing every part using tech data and AI. So when you look at our growth priorities, cloud, both the move to the cloud, but also cloud-based platforms, all growing very significantly, right, at the top level overall. And so it's about building a digital core. And then the opportunity to take AI is to then reinvent the processes and the ways of working, which is, by the way, a huge opportunity for Accenture because we're not just about the technology. Our strength is in being able to do all of that. So I think it's really important that it's not an emphasis shift on AI. It's a rapidly accelerated opportunity because companies who were kind of resistant or not focused on it are now focusing on it. So I think that's important.

Then the last piece is we will -- our focus is not going to suddenly in M&A be around just data and AI. And in fact, we think that there's going to be much more organic because there isn't a lot out there. But we use AI, right, to scale things like consulting, industry expertise, digital expertise. We've done that for digital manufacturing, supply chain. We also use it to get into new areas. So I'm super excited that yesterday we announced that we acquired Anser Advisory, which is a primarily US-focused, North America-focused company in capital projects. That's a really small business today in the U.S. and we just acquired a great company with 900 professionals in a market that has an \$88 billion addressable market in North America, growing really well. That's a whole new area of net new growth for our North America business. So we use our ability to invest, right, to scale great things and continuously seed new areas of growth for Accenture. And you've seen us do that over and over again. We did it with Song, we did it with Industry X and digital manufacturing.

We're now in supply chain and we're moving into capital projects. So that is just a huge advantage as you think about, not just the next couple of years, but growth over the decade for Accenture.

CONCLUSION

Julie Sweet

Great. Well, thanks, everyone. In closing, I want to thank all of our shareholders for your continued trust and support and all our people for what you are doing for our clients and for

each other every day. Thanks, everyone, for joining. Look forward to being back together in a quarter.

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