

Accenture

Fourth Quarter Fiscal 2023 Financial Results

Conference Call Transcript

Thursday, September 28, 2023 / 8:00
a.m. Eastern

CORPORATE PARTICIPANTS

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Katie O’Conor

Thank you, operator. And thanks, everyone, for joining us today on our fourth quarter and full 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 both the fourth quarter and full fiscal year. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the first quarter and full fiscal year 2024. We will then take your questions before Julie provides a wrap 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 reconciliation of non-GAAP financial measures, where appropriate, to GAAP in our news release or in the Investor Relations section of our website at [accenture.com](https://www.accenture.com). As always, Accenture assumes no obligation to update the information presented on this conference call.

Now let me turn the call over to Julie.

Julie Sweet

Thank you, Katie and everyone joining us. And thank you to the approximately 733,000 Accenture people who have worked hard to be at the center of our clients' business across our fiscal year '23.

Our laser focus on creating 360-degree value for our clients and all our stakeholders is reflected in our overall strong results for the year. With record bookings of \$72 billion, we had a record 106 clients with quarterly bookings greater than \$100 million in FY '23, up from 100 last year. We now have 300 Diamond clients, our largest client relationships, an increase of 33 from last year, demonstrating yet

again the depth and breadth of our capabilities and the trust our clients have in us. We delivered revenues of \$64 billion for the year, representing 8% growth in local currency, while continuing to take market share. We expanded adjusted operating margin by 20 basis points and delivered adjusted EPS growth of 9% while continuing to significantly invest in our business and our people, with capital deployed of over \$2.5 billion across 25 acquisitions; \$1.3 billion in R&D, assets, platforms and industry solutions; and \$1.1 billion invested in the training and development of our people. And we generated free cash flow of \$9 billion, allowing us to return over \$7 billion of cash to shareholders. And we are delivering a little ahead of schedule on our business optimization actions we announced in March to reduce structural costs to create greater resilience.

We also continued to attract, retain and inspire outstanding people through our talent strategy. We're making progress toward our commitment to net zero by 2025, and we invested in our communities to help ensure we have vibrant places where we work and live. I will give more detail a little later in the call.

Taking a step back. Coming off two fiscal years of double-digit growth and a truly extraordinary FY '22, we are very pleased with our FY '23 results and the moves we have made to optimize our business. We are also rapidly taking an early leadership position in gen AI, which will be an important part of the reinvention of our clients in the next decade. Last quarter, we shared that we had sold 100 projects with roughly \$100 million in sales over the prior 4 months. Demand accelerated in Q4 with another approximately \$200 million in gen AI sales, to bring our total to over \$300 million for the year. We also are embracing the use of gen AI in our own delivery of services and the way we work across Accenture.

As we reflect on how our market has developed over the last year, we and our clients have had to navigate a macro environment that is tougher than we anticipated at the beginning of FY '23. While it's played out differently across markets and industries, we have seen greater caution globally with lower discretionary spend; slower decision-making; and in particular for us, a significant impact from the challenges the comms, media and tech industries have faced. For example, in Q4, where we grew 4% in local currency, if we exclude CMT, we grew 7% globally, 6% in North America, 9% in Europe and 8% in Growth Markets. Against that backdrop, as we enter FY '24, we remain laser-focused on creating value for our clients. While the pace of spending has changed, the fundamentals have not. All strategies continue to lead to technology; and companies will need to reinvent every part of their enterprise using tech, data and AI to optimize operations and accelerate growth. To do so, they must build a digital core. We are continuing to see significant demand in areas like cloud migration and modernization, modern ERP and data and AI and the emergence of gen AI in particular, all of which represent areas of great opportunity. And it's still early.

For example, we estimate that:

- Only 40% of workloads are in the cloud today.

- Only 1/3 of clients have modernized their ERP platforms and
- less than 10% have what we define as mature data and AI capabilities.

We believe helping build a strong digital core and then using it to reinvent will be the drivers of our growth. Our ability to advise, shape and deliver value-led transformation leveraging the breadth of our services and industry expertise, from strategy and consulting to technology, to our managed services across industries and geographic markets, along with our privileged position with our ecosystem partners, is what makes Accenture unique. And you can see this unique positioning in the number of our Diamond clients and clients who turn to us for large-scale transformation.

Over to you, KC.

KC McClure

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

We were pleased with our results in the fourth quarter, which were within our guided range and aligned to our expectations, completing another strong year for Accenture. Our results reflect the diversity of our business and once again illustrate our ability to run our business with discipline and deliver significant value for our shareholders.

So let me begin by summarizing a few highlights for the quarter. Revenues grew 4% local currency, driven by high single or double-digit growth in 5 of our 13 industries. As we called out last quarter, we expected increased pressure in our CMT industry group; and we saw declines of 12% local currency this quarter. As Julie mentioned, excluding CMT, our business grew 7% globally.

We delivered adjusted EPS in the quarter of \$2.71, reflecting 4% growth over EPS last year. Adjusted operating margin was 14.9%, an increase of 20 basis points over Q4 last year, and includes continued significant investments in our people in our business. And finally, we delivered free cash flow of \$3.2 billion, driven by very strong DSO management.

Now let me turn to some of the details. New bookings were \$16.6 billion for the quarter, a 10% decline in local currency with an overall book-to-bill of 1. Consulting bookings were \$8.5 billion with a book-to-bill of 1. Managed services bookings were \$8.2 billion with a book-to-bill of 1.

Turning now to revenues. Revenues for the quarter were \$16 billion, a 4% increase in both U.S. dollar and local currency representing continued market share gains. 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

represent about 1/3 of our addressable market. We use 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 on a rolling 4-quarter basis.

Consulting revenues for the quarter were \$8.2 billion, a decline of 2% in both U.S. dollar and local currency.

Managed services revenues were \$7.8 billion, up 10% in both U.S. dollars and local currency.

Taking a closer look at our service dimensions. Technology services grew mid-single digits. Operations grew high-single digits, and strategy and consulting declined mid-single digits.

Turning to our geographic markets. In North America, revenue growth was 1% in local currency, driven by growth in public service, health and utilities. These increases were partially offset by declines in communications and media, software and platforms, banking, capital markets and high tech. In Europe, revenues grew 7% in local currency, led by growth in banking and capital markets, industrial and public service. Revenue growth was driven by Germany and France. In Growth Markets, we delivered 6% revenue growth in local currency driven by growth in chemicals and natural resources, industrial and energy. Revenue growth was driven by Japan.

Moving down the income statement.

Gross margin for the quarter was 32.4% compared with 32.1% for the same period last year. Sales and marketing expense for the quarter was 10.8% compared with 10.2% for the fourth quarter last year. General and administrative expense was 6.7% compared to 7.1% for the same quarter last year.

Before I continue, I want to note that in Q4 we recorded \$472 million in costs associated with our business optimization actions, which decreased operating margin by 290 basis points and EPS by \$0.56 and also impacted our tax rate. The following comparisons exclude these impacts and reflect adjusted results.

Adjusted operating income was \$2.4 billion in the fourth quarter, reflecting a 14.9% adjusted operating margin and an increase of 20 basis points from operating margin in Q4 last year. Our adjusted effective tax rate for the quarter was 27.4% compared with an effective tax rate of 24.6% for the fourth quarter last year. Adjusted diluted earnings per share were \$2.71 compared with EPS of \$2.60 in the fourth quarter last year.

Days service outstanding were 42 days compared to 42 days last quarter and 43 days in the fourth quarter of last year. Free cash flow for the quarter was \$3.2

billion resulting from cash generated by operating activities of \$3.4 billion, net of property and equipment additions of \$180 million. Our cash balance at August 31 was \$9 billion compared with \$7.9 billion at August 31 last year.

With regards to our ongoing objective to return cash to shareholders. In the fourth quarter, we repurchased or redeemed 3.2 million shares for \$1 billion at an average price of \$312.35 per share. Also in August, we paid our fourth quarterly cash dividend of \$1.12 per share, for a total of \$706 million. And our Board of Directors declared a quarterly cash dividend of \$1.29 per share to be paid on November 15, a 15% increase over last year; and approved \$4 billion of additional share repurchase authority.

Now I'd like to take a moment to summarize the year, as we've navigated a challenging macro environment and successfully executed our business to deliver or exceed all aspects of our original guidance that we provided last September on an adjusted basis. We delivered \$72.2 billion in new bookings, reflecting 5% growth in local currency; revenue of \$64.1 billion for the year, reflecting strong growth of 8% in local currency and reflecting continued market share gains. Before I continue, for the full year, we recorded \$1.1 billion in costs associated with business optimization actions, which decreased operating margin by 170 basis points and EPS by \$1.28. We also recognized a gain on 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 margin of 15.4%, a 20 basis point expansion over FY '22. Adjusted earnings per share was \$11.67, reflecting 9% growth over FY '22 EPS. Free cash flow of \$9 billion was significantly above our original guided range, reflecting a very strong free cash flow-to-net income ratio of 1.3. And with regards to our ongoing objective to return cash to shareholders, we exceeded our original guidance for capital allocation by returning \$7.2 billion of cash to shareholders while investing approximately \$2.5 billion across 25 acquisitions.

In closing, we remain committed to delivering on our enduring shareholder value propositions while creating 360-degree value for all our stakeholders, clients, our people, our shareholders, partners and our communities.

And now let me turn it back to Julie.

Julie Sweet

Let me now bring to life for you the demand we saw from our clients this quarter as they build their digital core and reinvent. We saw this demand across markets and industries. Our cloud momentum continued with very strong double-digit growth in Q4 as clients prioritized building a strong and secure foundation for reinvention.

We're partnering with a multinational financial services company on a cloud-based transformation to deliver enhanced, personalized and secure customer experiences, and to increase employee productivity. Together, we're developing an integrated hosting strategy that unifies their hybrid multi-cloud landscape and lays the foundation for their digital transformation over the next decade. This partnership enables innovative solutions across all bank functions and is backed by a trusted and secure foundation that supports advanced workloads and complex AI and data solutions. Working from a compliant cloud platform will safeguard the customer data, privacy and financial assets, positioning the organization to stand out for its innovation and customer focus.

And we are supporting a U.S.-based energy company on a total enterprise reinvention strategy to unify different technologies and business processes around a common digital core. We're helping lead the deployment of a cloud-based IT platform that integrates customer management, finance, HR, supply chains, asset management and operations, improving the ability to assess and optimize operational performance. We also are helping manage and integrate the responsibilities and activities of the vendors involved in the project, standardize data from legacy applications and enable company employees to understand and manage the new processes and technologies. Data-driven decision-making will be improved, allowing the company to cultivate better collaboration within their business, helping them operate more efficiently and better serve their customers.

We are partnering with Coca-Cola Bottlers Japan to accelerate their path to becoming a world-class bottler and data-driven organization. The partnership includes establishing an innovative joint venture of significant scale of approximately 870 people that will accelerate transforming their digital core, optimizing their enterprise operations, leveraging the power of cloud, data and AI to increase the value delivered from their core business functions. In support of their broader strategic business plan, Accenture will provide specialized talent; industry expertise; and leading-edge technology, automation and managed services to help Coca-Cola Bottlers Japan adopt a strategy of continuous enterprise reinvention.

Data and AI are an important part of building the digital core. And we see that work both embedded in our larger transformations, as you just heard, and in work focused on data and AI modernization. Accenture Federal Services is helping the Defense Health Agency operate and enhance the joint medical common operating picture platform. By implementing data synchronization across multiple network domains and near real-time collaboration and information sharing, we will provide a comprehensive picture into Department of Defense medical assets. This increases visibility into unit health, equipment and supplies; and allows for faster and more informed decision-making.

We are a strategic partner for the Saudi Data & AI Authority to boost the kingdom's transformation to a data-driven economy and help the kingdom become a world leader in generation and deployment of AI technology. We're working closely with

SDAIA to support cutting-edge research, promote digital innovation in public life and boost national capabilities and talent.

We're especially pleased with the double-digit growth we have in the Middle East, a small but growing part of our business.

Security is essential to a digital core, and we had very strong double-digit growth in our security business in Q4.

We're working with a major energy network in the U.K. on the transformation of its cybersecurity systems. We will provide an entire managed service for their cybersecurity capability, including migration to a more powerful security platform, continuous and active threat monitoring and response services as well as security tools management. Our solutions will help provide improved security, reduce exposure to potential global security threats and ultimately better safeguard the safe delivery of gas to millions of U.K. homes and businesses.

As clients continued to reimagine and prioritize the customer experience, Song delivered strong double-digit growth in Q4.

We are helping smart Europe, maker of the next generation of smart vehicles, products and services of the iconic brand from Smart Automobile Co., Ltd. - a joint venture between Mercedes-Benz and Geely. We are helping them reinvent car shopping by creating an ecosystem that supports a seamless, fully digital-driven buying experience. By putting data at the core, the system allows personalization of the customer journey, makes recommendations based on real-time data and includes enhanced offerings such as extended insurance coverage. It will help smart Europe reposition its brand and support the launch of its intelligent, fully electrical car lines.

We also continue to see demand for our supply chain and Industry X capabilities, the next digital frontier, which grew strong double digits in Q4.

In Industry X, we are partnering with a global chemical and materials company on a digital transformation of their manufacturing core and commercial capabilities. Through our Industry X capabilities, we have built a unified connected worker platform for operators, maintenance technicians and job planners, along with a cloud-based data lake, to help generate insight from disparate sources of manufacturing data. The program is already live in dozens of manufacturing sites and is expected to create significant revenue growth over the next few years for our client.

And in supply chain, we have partnered with a large global food and beverage conglomerate to strengthen supply chain resilience so consumers have continued access to their products in stores and online. By creating a digital twin of its supply

chain, we will develop stress test models to help identify supply disruptions with the highest risk before they occur.

Across these examples, you can see our unique capabilities of both being a technology powerhouse, along with our industry and functional expertise from strategy and consulting to technology, to managed services, to help our clients reinvent.

Now let's turn to generative AI.

As a reminder, last quarter, we announced a \$3 billion investment in AI. While still in the early stages, gen AI technology is maturing rapidly, and we believe it will be a significant source of value for us and our clients over time. We now have about 300 projects. And I want to share a little color on how this demand is coming through.

We have projects across all our industries, with banking, public service, consumer goods and utilities leading in activity. Clients are doing a variety of different types of work, from strategy and use case implementations; to tech enablement; to scaling; to model customization, tuning and training; to talent and responsible AI.

For example, we're working with a multinational telecom company, Telefonica Brasil, also known as Vivo, to deliver a generative AI solution that helps its agents respond quicker to landlords' queries about property rental contracts for network towers. The application quickly reads landlords' queries and proposes a set of actions to help fulfill requests, reducing the time it takes agents to respond. It also structures the response with a set of relevant answers to increase the response quality and ensure all queries are answered in a helpful manner. The solution has already reduced agent response time by 30% and increased the user experience score by 66%.

Some of the key ingredients of our success in gen AI are, first, ecosystem partnerships. As always, we are starting with deep relationships and leadership in the ecosystem from the hyperscalers to the model builders, to the start-ups and academics. It is important to emphasize that we are early in the maturity of gen AI for enterprise; and our depth, experience and insight on these platforms is essential to guiding our clients.

Second, talent. We start with a deep technical knowledge and understanding of AI and gen AI and blend that with our industry and functional expertise to know how to reinvent across the enterprise, including processes and operating models, bringing together the depth and breadth of our expertise. And that is where Accenture is different, building the bridge from as is to the future. And we have already trained approximately 600,000 of our people in the fundamentals of AI. Now with generative AI, the pace and impact is growing rapidly. And we are now taking a further step to equip more than 250,000 people; and using new AI tools equitably,

sustainably and without bias. And with investments in our AI academy focused on deep AI and gen AI specialization, we are also progressing towards our goal of doubling our deeply skilled data and AI practitioners from 40,000 to 80,000.

Third, responsible AI is essential. At Accenture, we have an industry-leading responsible AI compliance program which is embedded in how we use and deliver AI. And we're using the experience and lessons learned by us to help our clients build out their own responsible AI program, which is necessary to address the risks and get the full value from AI.

Finally, we are embracing gen AI across our services, developing new cutting-edge tools and solutions, embedding gen AI in the way we work. Our approach takes into account where the technology is today, the need to deploy it responsibly and the recognition that we do work in highly complex environments. While all companies want to explore and understand gen AI, what we find is that clients who are more mature digitally want to go faster, while others would like to test the waters with proofs of concepts and synthetic data. And others prefer to wait until they have built more of their modern digital core. The extent and pace of this generative AI progression will become more clear over the coming quarters as the technology and the market continue to mature and progress.

Now turning to our people, who have made all of this happen. Core to our success is our ability to attract and retain and inspire our outstanding talent. Essential to our success is our robust talent strategy and, in particular, our ability to attract diverse talent and our Net Better Off approach to retaining our great talent. We continue to lead in our ability to attract people with different backgrounds, different perspectives and different lived experiences. These differences ensure that we have and attract the cognitive diversity to deliver a variety of perspectives, observations and insights which are critical to drive the innovation needed to reinvent. Our success is reflected in our being the top-scoring company on the Bloomberg Gender-Equality Index for the second year in a row. And we also earned the #1 position on the Refinitiv global diversity and inclusion index for the fourth time in 6 years. This index ranks over 15,000 organizations globally and identifies the top 100 publicly traded companies with the most diverse and inclusive workplaces.

Our talent strategy includes inspiring and retaining our best talent through our Net Better Off approach. We want our people to feel they are net better off for working at Accenture. This strategy has 4 dimensions focusing on people feeling healthy and well physically, emotionally and financially; feeling connected with a sense of belonging; feeling their work has purpose; and feeling they are continuing to build market-relevant skills. This year, for example, our people participated in approximately 40 million training hours. And we were a recipient of the Brandon Hall gold award for best benefits, wellness and well-being programs.

Building on our long-standing commitment to the environment, we are pleased to have hit a significant milestone on our path to net zero, purchasing 100% renewable electricity across all of our Accenture offices.

I will wrap up with a comment on our work in communities. Vibrant communities are important to our business success, and therefore, we continue to prioritize creating value in these communities around the world. For example, Accenture is helping to welcome refugees, recognizing how they enrich our communities with their courage, strength and talent. In June 2023, on World Refugee Day, we committed to partner with organizations to help skill and support an estimated 16,000 refugee job seekers and migrants and to hire 100 refugees in Europe over the next 3 years.

Back to you, KC.

KC McClure

Thanks Julie.

Now let me turn to our business outlook.

For the first quarter fiscal '24, we expect revenues to be in the range of \$15.85 billion to \$16.45 billion. This assumes the impact of FX will be approximately positive 2.5% compared to the first quarter of fiscal '23 and reflects an estimated negative 2% to positive 2% growth in local currency.

For the full fiscal year '24, based upon how the rates have been trending over the last few weeks, we currently assume the impact of FX on our results in U.S. dollars will be flat compared to fiscal '23. For the full fiscal '24, we expect our revenue to be in the range of 2% to 5% growth in local currency over fiscal '23, which includes an inorganic contribution of about 2%.

We expect business optimization actions to impact fiscal '24 GAAP operating margin by 70 basis points and EPS by \$0.56. The following guidance for full year fiscal 2024 excludes these impacts.

For adjusted operating margin, we expect fiscal year '24 to be 15.5% to 15.7%, a 10 to 30 basis point expansion over adjusted fiscal '23 results.

We expect our annual adjusted effective tax rate to be in the range of 23.5% to 25.5%. This compares to an adjusted effective tax rate of 23.9% in fiscal '23.

We expect our full year adjusted earnings per share for fiscal '24 to be in the range of \$11.97 to \$12.32 or 3% to 6% growth over adjusted fiscal '23 results.

For the full fiscal '24, we expect operating cash flow to be in the range of \$9.3 billion to \$9.9 billion, property and equipment additions to be approximately \$600 million and free cash flow to be in the range of \$8.7 billion to \$9.3 billion. Our free cash flow guidance reflects a free cash flow-to-net income ratio of 1.2. Finally, we expect to return at least \$7.7 billion through dividends and share repurchases, as we remain committed to returning a substantial portion of our cash to our shareholders.

And 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) Our first question will come from the line of Tien-Tsin Huang of JPMorgan.

Tien-Tsin Huang, JPMorgan

Julie and KC, I just want to dig in first on CMT, if you don't mind, just curious there, if the challenges have changed at all. Is it isolated to just a few clients, or is it more broad-based? And what's the strategy here to turn demand around? Are you seeing any green shoots there?

Julie Sweet

Yes, great. Thanks, Tien-Tsin. So it is broad-based. I mean we're seeing it broad-based across the globe and across clients. And we continue to see those challenges, so we do think that it's going to develop a little bit differently based on markets. The challenges in the U.S. are more difficult. They're more focused on both technology and the technology companies and comms, whereas Europe, it's a little different, the complexion. And so over the course of the year, we expect that the improvement will come at a little different pace depending on the market.

And in terms of how we're addressing it, it's really twofold. So first of all, we're going to continue to pivot within that industry to areas like helping within the confines of how much they're spending, trying to help them cut costs, working on

things like customer service, investing in more network capabilities. And what we're also doing is pivoting our business to the higher areas of growth. And you see that with acquisitions. Like we did Anser [Advisory] [corrected] in Industry X in the U.S. We did Flutura in India in data and AI, and so we've got a lot of areas of growth. And you can see that, when you take out CMT, with how the rest of our business is growing. And it's just going to take a little time to make that pivot. And that's why what you're seeing in our guidance is that we're going to build over the year as the actions we're taking to continue to pivot the business play out.

Tien-Tsin Huang, JPMorgan

Understood on that one. Just my quick follow-up, on gen AI. I know the sales doubled there, and you went through a lot of good detail. I'm just curious. Is it the deal sizes getting larger? Is it pulling through more large projects, from what you've seen recently? I'm just curious how that might evolve here as we get into the new fiscal year.

Julie Sweet

Sure. So at this point -and remember, when we give you gen AI numbers, we're being very clear it's pure gen AI, so we're not like sort of talking about data and all of those things. So the real gen AI projects right now are still in that sort of "\$1 million dollar-ish on average" range. And we expect that's going to continue for a while. That's what we're seeing because there's a lot of experimentation. Now what it's doing, though, is leading clients to look harder at, well, where do I go faster, right, in terms of the digital core. And so we started seeing a tick up, for example, in data migration, right, but it is still extremely early. But that's how we think it's going to play out over even the coming year, right, as people get more excited about it and it also points out the challenges, but keep in mind that implementing gen AI is not easy. Entire environments need to be set up. It's quite complex actually, so it really plays into our strengths of being able to help them understand what it takes, where their gaps are and then how to take the next step on the journey to get there even as we see clients being cautious. They're really focused on, "Help us save money so we can take those next steps."

Tien-Tsin Huang, JPMorgan

Yes, it should bode well for Accenture.

Operator

We'll go next to the line of James Faucette with Morgan Stanley.

James Faucette, *Morgan Stanley*

Great. Wanted to kind of follow up on a couple of questions there. One of the other areas that had seemed to have strengthened and seems like it's weakened a little bit has been managed services. Can you talk through kind of what's happening there? And one of the things that we're also seeing is, or hearing is, that there's some variation in demand right now, especially geographically, maybe with Europe being a little weaker but other markets being a little stronger. Can you just give color on managed services and what's happening geographically?

KC McClure

Yes. Thanks, James, for the question. I will maybe I'll start with just kind of giving you a little bit of color on what we're seeing on managed services as it relates to guidance and just maybe broader guidance kind of overall. So I'll just start with our full year guidance, which is 2% to 5% growth for the year. I think a key part, as Julie mentioned, is that we expect that we're going to build as we go throughout the year. And you can see that in our range for Q1 which starts negative 2% and has 2% at the top end of our range.

And then as you look at Q1, for the most part, what we are reflecting in our Q1 guidance is really more the same across the various dimensions of our business that we saw in Q4, but we have a backdrop of a tougher compare in the first quarter of FY '24. That's our toughest compare for the full year.

And then if you look at the full year, maybe 3 things to add. From a macro, we're not assuming that there's an improvement in the discretionary spend environment or the macro as we look at the year. And then second, to get to the type of work question, we're going to build as we go throughout the year. And we see consulting for the full year being at low single digit, and managed services is going to be a healthy mid-to high single-digit growth for the full year.

And then depending on how we revenue build, the last point would be on operating margin. We do expect to see more variability in the quarters as we go through fiscal '24, on our way to 10 to 30 basis points of expansion for the year. So hopefully, that gave you a little bit of color. Julie, if you want to talk a little bit more about specifics on managed services.

Julie Sweet

And what I would say on managed services. Managed services continue to be really important for our clients because it's both a cost play but also a faster digitization play, but it will play out a little bit. So, for example, at Accenture, right, we've got trust and safety and other managed services in the CMT. And so that's going to affect some of our results, depending on the quarter and the compare and how things kind of roll out, so that's why what we're thinking about next year will be somewhere in the mid-to high single digits, but we don't see a fundamental issue

around managed services. In fact, we think they're a real strategic priority for many of our clients, but it will play out a little bit differently based on industries. We see less of it based on sort of market per se because clients really need the managed services.

James Faucette

Got it. And then just as a quick follow-up, can you talk a little bit about your inorganic strategy, just what contribution has been; and particularly in light of the increased capital return program for '24, if we should anticipate that, that will have any impact on what you guys historically have done from an inorganic contribution?

KC McClure

Yes, sure. In terms of inorganic contribution, for '23, it was about 2%. was the inorganic contribution. And for '24, James, we're considering another about 2% in '24.

Julie Sweet

Yes. And look. On our inorganic strategy, remember that the way we think about it is can we get into new areas through our inorganic like what we did with Anser Advisory and Industry X, which is capital projects. It's basically we're very small there before the acquisition. That's an \$80 billion addressable market, so that's an acquisition to start to grow there. We think about it as being important to invest in our industry and functional expertise, so in France this year, – this last quarter, we did an insurance acquisition in strategy and consulting. And we think about it in terms of scale, so we bought a data and AI practice in India this quarter. And so as we are pivoting to the higher areas of growth right now, a real advantage we have is the ability to leverage our investment capacity in order to do that pivot. And of course, well, right now we're kind of assuming 2%, but we have the ability to do more if we have the right opportunities. And so we really do think about this as a huge competitive advantage in our industry and our ability to drive growth and to be in the hot areas of the market.

Operator

We'll go next to the line of Lisa Ellis with MoffettNathanson.

Lisa Ellis, *MoffettNathanson*

I might start on the business optimization program. Can you just give a little bit more detail in terms of where exactly you are, what's completed, what remains in 2024; and maybe a little bit of more detail on how we should expect that impact to sequence in throughout fiscal '24? And then just remind us whether that's then the end of it and we should expect to kind of move back toward GAAP reporting at the

end of '24.

KC McClure

Yes. Thanks, Lisa. So just as a reminder, when we announced our business optimization program, we said it would be about \$1.5 billion and that would go through FY '24. So, we still are saying \$1.5 billion through FY '24. As it relates to next year, we expect to incur approximately \$450 million. We did record \$1.1 billion in FY '23, which is a little bit more than we expected to do in '23, so we were able to get a bit more into the P&L in last fiscal year, '23. And I'm happy to go through the impacts on EPS, but you saw that it will be a \$0.56 impact on EPS for '24, and happy to go through any other questions that you have.

And also, as we go throughout the year we take the business optimization out of our results as we go throughout the quarters, so that's another driver for why we'll have more margin variability as we go throughout the year. And we'll see how it plays out. It really depends on the countries and different things that we have to go through in terms of process and procedures, and so I'll update as we go throughout the year on the full year estimate, but we're not breaking that up by quarter.

Lisa Ellis, MoffettNathanson

Got it, okay. Okay, great. And then maybe my follow-up, just a quick follow-up on the managed services question, maybe just a little bit taking a step back, Julie. I think, over the last few quarters as we've been seeing some of the softness in strategy and consulting and the shorter-duration discretionary work, you've been highlighting pretty consistently that it has not really bled over into the larger transformation programs. And I just wanted to kind of ask if you could kind of update us on the latest you're seeing on that given that we saw a little bit of a slowdown in some of the managed services bookings this quarter.

Julie Sweet

Sure. I mean what I would say is that overall, first of all, the large transformational programs include managed services, but they also include building, like putting new modern ERP programs in place. So it's not only managed services, just to kind of set the stage for that. And just as you think about the fundamentals, because we think of the transformation deals, managed services are often a way to pay for them. They're often also a way to go faster and modernize, but we really look at those transformational programs in the round, so when you think about the fundamentals that our clients are facing, there is more reinvention ahead than they have done, so far, so huge opportunity ahead. And you see that in where they are in the cloud journey, only 40% workloads, right? We estimate less than 10% of our clients are mature in data and AI. Only 1/3 have put in the modern ERP programs. And so as you think about what they have to do, managed services will continue to play a huge role in paying for it and in actually modernizing much of it as well the other big implementations. We do see, however, when you kind of go to the market

— and by the way, that's why we're super well positioned — our strategy is to be that partner. And then reinvention begets more, right? So you first build the digital core and then you've got a lot of work on top of that. And that is our growth strategy.

Now if you come to what we're seeing in the market. So always best to hear from what's going on on the ground. Last week, I was very busy and I was with about 20 different CEOs, and they had 3 messages. Tech is super important. That's number one. Number two, they already have major programs underway. And they know they need to do a lot more, but number three is they're feeling cautious about the macro. And we've already seen that in the small deals, but they're asking us to help them save money and be more focused right now even on the bigger programs. And so what I would say is — and that's reflected in our guidance; is that the macro is having an effect on the pace of spending right now, again plays into our strength in terms of being able to be the reinvention partner, being able to really think about the journey, and positions us super well as they navigate that macro. But the reality is that there is this sense of caution and it's bleeding over to kind of overall demand.

KC McClure

So right. And Lisa, maybe I'll just add bookings can be lumpy, particularly in managed services. And as you know, we look at bookings and book-to-bill over rolling 4 quarters. And our goal in managed services is to be 1.2 or above, and that's exactly where we are on a 4-quarter basis.

Operator

We'll go next to the line of Keith Bachman with BMO.

Keith Bachman, BMO

I wanted to ask, go back to M&A if I could start with you, Julie. You're guiding to 2 points of M&A contribution to your full year guidance, which is consistent with sort of the past years but the numbers are much bigger. 2 points is meaningfully different than what it was even 3 or 4 years ago in terms of, A), the capital required to do those deals; and B), the integration therefore of the head count. And I just wanted to hear your kind of philosophically — it doesn't seem like 2 points can continue on for perpetuity, but just how do you think about any kind of balance sheet constraints or also the integration required to make sure the people side of the business —because again, implicitly, the deals are getting larger. And then as part of that, could you just speak to do you look at the same size deals? Or do you need to kind of flex up a little bit in terms of looking at larger opportunities? And then I have a follow-up.

KC McClure

No problem, Keith. Thanks. I'll handle the capital allocation part and I'll hand it over to Julie. So just from a capital allocation standpoint, Julie referenced this a little bit earlier, but our capital allocation framework is really durable, but it's also very flexible, so we've been able to continue to return a significant portion of our cash through dividends and share repurchases while, over the time, we've been flexing at various times the amount of money that we spend in V&A. And we can continue with that framework. So just again, as a focus, we had about 80% of our free cash flow returned to shareholders through dividends and repurchases in FY '23. And we actually have a \$500 million, \$0.5 billion, increase in our guidance baked in for next year, so it just shows that our capital allocation framework can flex as needed while still doing a great return.

Julie Sweet

And what I would say is that I'm really proud that how we do M&A is a core competency of Accenture. So we've now been on this journey. I helped start it when I was the General Counsel. I remember that was I came in and they were like, "We kind of need to increase this." And I've done a lot of that in my prior life. And what you see is that, as we've grown, we've continued to build the capabilities. We have a very mature machine around integration, but we also have an operating model where we have leaders close to the acquisitions, doing the integration. And they really do vary from very small to larger ones. We've done over \$1 billion and we could do even bigger ones with our capital. The point is that we know how to integrate. And we've been doing this now for many, many years.

Keith Bachman, BMO

Okay, fair enough. My follow-up is just how do you think about head count for Accenture through the year. You're just kind of finishing off your RIF, but how do you think about head count as we process through FY '24? And I'm really thinking on an organic basis excluding the M&A.

KC McClure

Yes, thanks, Keith. Really what I would say is managing supply and demand. As you know, it's a core competency of ours. And we're going to manage our supply skills based on wherever we see the growth, so we didn't expect that we would need to add a lot of people from Q3 to Q4, as we said, and that's exactly what happened. And so we're going to continue to hire for the skills that we need. And we're going to focus on the automation and, as Julie mentioned, a lot of reskilling of our people.

Operator

We'll go next to the line of Darrin Peller with Wolfe Research.

Darrin Peller, Wolfe Research

I just wanted to ask in terms of visibility that you'd say you have now in the environment relative to prior years on the outlook side. I mean, has anything changed? Then just maybe if you could reiterate for us where you're seeing the pockets of strength in a little bit more of a specific manner around examples that customers need right now, that might buck the trend of what you typically see in a downturn macroeconomically. Just curious kind of what's fighting through the demand weakness no matter what, just because it's really mission critical right now.

KC McClure

Yes. Great. Thanks, Darrin. In terms of visibility, as we sit here at the beginning of a new fiscal year, we're really confident that we're taking all the right steps to successfully deliver for a full year. And as you know well, we always aim for the top part of the range, but just like every other year, at this time, the back half of the year is less certain because we'll know more when the budgets are set, which is really in the H2 of our year. But as we mentioned, we are going to build throughout the year. And why do we say that? Well, first of all, we're confident in the steps that we're taking that Julie highlighted, many examples to pivot us to the higher-growth areas. And we expect that we'll see that come through in the back half of the year, and that's also backed up by the investments that we'll make. The second part is that we do have the revenue from the larger-scale transformations it is out there. And so we just need to layer in some of the new growth area work that we'll get to as we approach the back half of the year. And the last part, as you're aware, I mean, we do have the benefit of easier comparison in the back half.

Julie Sweet

Yes. And then in terms of demand, it's exactly what we've been talking about. The number one area of demand is building that digital core, so you've got clients like the financial service client I mentioned in the script. It's not in the cloud at all and is basically needing to migrate to the cloud. Then you've got those who are in the cloud, but they haven't modernized their ERP. You saw a lot of examples of that. Then you've got security, right, absolutely has to happen; and then lots of focus on data and AI, particularly for those who've already been investing. So they're in the cloud, they've got their modern ERP and now they want to really accelerate AI. So what's not happening, right, is discretionary spend globally, as we saw throughout the year, starting in North America, people are not doing smaller systems integration. They're not doing smaller strategy and consulting. They're prioritizing and focusing on larger deals. And even there, there's prioritizing, especially depending on the industry where you've got more challenges to say – “we've got a lot underway. We're cautious about the environment, so help us, Accenture, cut costs so we can afford all of the reinvention ahead of us. And help us prioritize what we start next.”

And that's kind of the overall sort of more cautious spending, but I just want to reemphasize nothing has changed about the fact that our clients have more ahead of them than behind them in terms of building the digital core and then using it to reinvent. And we're the only one in our industry that can both build the technology and, at this scale, have the industry and the functional expertise to then be positioned to help them use that technology to reinvent, so we are super optimistic about this industry and our position.

Darrin Peller, *Wolfe Research*

That makes sense, Julie. And just, I guess, as a follow-up to that, the ramp time, you talked about \$3 billion [corrected] of investment in AI last time, and we've obviously seen some evidence of success but early days still. So now that you've had the luxury of a few more months, the ramp time you'd expect to see that really become a much, much bigger part of the business, can you just quickly touch on that again? This is around AI and generative AI.

Julie Sweet

I'm sure my team are going to love "the luxury of a few more months", so thank you for that. I'm going to tell them that. "Guys, you've had a few more months." So look. As I talked a little bit about in our script, we're still learning. Remember these are like \$1 million sort of things. We're starting to look at our -- work it in our own delivery, so it's going to take a few more quarters till I've really got a well-informed view of that, but what I will say is gen AI is an amazing technology. It's going to do great things. And what I tell all my clients: can't use it unless you're in the cloud, have data and you modernize your core, so that's our opportunity.

Operator

And we'll go next to the line of Jason Kupferberg with Bank of America.

Jason Kupferberg *BofA*

I wanted to pick up on your earlier comment. I think you said that you're not assuming any improvement in discretionary spending in the overall environment there during FY '24. So I know you guys typically start the year with a relatively conservative approach to guidance. That certainly served you quite well in fiscal '23, so against that backdrop, could you tell us a little bit about what you're thinking regarding growth for each of the 3 business dimensions in FY '24?

KC McClure

Yes. So Jason, let me just kind of give you a little bit more color on guidance, right? So as we mentioned, we're not assuming in our guidance any improvement in the macro or discretionary spend, but we're going to pivot to areas of growth, so the

macro is not going to help us or hurt us this year, is kind of what really essentially what we're saying. In terms of color, I'll kind of stick to what we have in the type of work maybe as the best way of thinking about it. And again I think just consulting, its going to build as we go throughout the year. And overall, I think it's important so that we are going to build in this environment. We're going to build as we go throughout the year.

Jason Kupferberg, BofA

Okay. And then just on bookings, any thoughts on the first quarter or the full year? I know there are some seasonal elements we typically consider in the November quarter.

KC McClure

Yes, sure. So let me just talk about maybe a little bit of bookings. In bookings, maybe we'll start with the fourth quarter. I mean it's come in a little bit lighter than we expected. And they can be lumpy. And we saw some deals kind of push out of the quarter. When it came to small deals, we didn't see any change in the discretionary spend environment. And just to reiterate, that we're really pleased with the 21 clients that we had with over \$100 million. Julie talked about that. It just reinforces our strategy to be the client's transformational partner of choice and to be at their core. And lastly, as it relates to '23, we look at bookings over rolling 4 quarters. And I mentioned this on managed services, but just overall we're at a 1.1 book-to-bill, which I'm really pleased about, for the fourth quarter. And then for next year, looking at '24 Q1, you're right. It's seasonally a little lighter for us. However, we have a solid pipeline. And we do expect that FY '24 Q1 bookings will reflect growth over FY '23 Q1.

Katie O'Conor

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

Operator

And that question will come from the line of Bryan Keane with Deutsche Bank.

Bryan Keane, Deutsche Bank

I wanted to just follow up on strategy and consulting. I know that, that was an area that we were hoping, at one point during the year, that it was going to turn back to positive growth by the fourth quarter. And then I know we didn't think that was going to happen as of last quarter, so I'm just curious. As we go through the year, into fiscal year '24, when do you think S&C might turn towards positive growth?

KC McClure

Yes, thanks, Bryan. So look. In terms of our full year range, at the top end of our full year range, which again, always where we try to be, it does reflect S&C reconnecting with growth. And that clearly is our goal. Now when, really the pace is going to differ by market, all right, so it's hard to tell exactly when it will be throughout the year. Of course, we'll update you as we go through. And North America, so our biggest market, will be a bit more challenged.

Bryan Keane, *Deutsche Bank*

Got it, got it. I'll leave it there because I know we're at the end of the call.

CONCLUSION

Julie Sweet

All right, in closing. I really do want to thank again all of our people and our managing directors, what they do every day, which is truly extraordinary and gives us a lot of confidence in the future. And I want to thank all of our shareholders, for your continued trust and support. I assure you we are working hard every day to continue to earn it. Thank you.

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