

# Accenture

## First Quarter Fiscal 2024 Financial Results

### Conference Call Transcript

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#### **CORPORATE PARTICIPANTS**

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

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

**Katie O’Conor**

Thank you, operator. And thanks, everyone, for joining us today for our first quarter fiscal 2024 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 first quarter. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the second quarter and full fiscal year 2024. 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 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, and thanks to our 743,000 people around the world for their incredible dedication and commitment every day, which is how we are able to consistently deliver 360° value for all our stakeholders. I am pleased that we delivered on our commitments this quarter while continuing to invest significantly in strategic areas to drive the next waves of growth, including extending our early leadership in generative AI, and we did so against a macro backdrop that continues to be challenging.

Starting with our financial results. Our bookings were \$18.4 billion, representing 12% growth in local currency. We had 30 clients with quarterly bookings greater than \$100 million in the quarter and over half were in North America, representing the trust our clients have in us to be at the center of their major programs, spending and ongoing reinvention.

We delivered revenues of \$16.2 billion for the quarter at the top end of our FX-adjusted range, representing growth -- 1% growth in local currency. We continue to take market share. As expected, we continue to see lower discretionary spend, which particularly impacts our consulting type of work, as well as slower decision-making and our CMT industry group continues to be challenged.

We remain on track with the business optimization actions we announced in March to reduce structural costs to create greater resilience. And finally, we expanded adjusted operating margin by 20 basis points and delivered adjusted EPS growth of 6%, while continuing to invest in our business and our people.

Turning now to our investments. We closed 12 acquisitions this quarter for a total of \$788 million in strategic areas across our geographic markets. In North America, we are continuing to build out our new growth area of capital projects, an \$88 billion addressable market in North America, which we entered in August with the acquisition of Anser Advisory.

In Q1, we added Comtech a consulting and program management company for infrastructure projects in Canada. We also invested in the next digital frontier with our supply chain acquisition of the Shelby Group. We expanded our cloud capabilities with the acquisitions of Ocelot Consulting and Incapsulate, and we invested in digital marketing in the health care industry with the acquisition of ConcentricLife.

In EMEA, we expanded our cybersecurity capabilities with the acquisition of Innotec in Spain, enhanced our business process services in the insurance industry with the acquisition of ON Service Group in Germany and invested in digital health care and talent with the acquisitions of Nautilus Consulting and The Storytellers in the U.K.

Finally, in growth markets, we are focused on the cloud opportunity with the acquisition of Solnet in New Zealand, along with cybersecurity with the acquisition of MNEMO in Mexico, and on digital marketing services with the Song acquisition of Signal in Japan.

Our ability to invest at scale to fuel our organic growth is a competitive advantage. For example, in EMEA, we are focusing on pivoting our CMT business. We are investing with Vodafone to create a strategic partnership to commercialize its market-leading shared services operations and unlock new sources of growth and efficiency, enhanced speed-to-market and new customer opportunities for their operating companies and partner markets.

Together, we plan to create a new data and AI-driven shared services model and a scaled, commercially-driven and more efficient organization with higher quality services and enhanced speed-to-market for its portfolio of offerings. The new unit will utilize Accenture's world-class technology, transformation and managed services, such as its digital solutions and platforms, and deep AI expertise. It will also tap into our well-known learning capabilities to continuously create new skilling and career paths for its people. This move speaks to Vodafone's ambition to work in new ways, reduce structural complexity, reinvent their company and the industry.

And of course, we continue to invest in learning for our people with approximately 8 million training hours in the quarter, representing an average of 12 hours per person.

Turning to generative AI -- our growth and investments. We continue to take 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 approximately 300 projects with \$300 million in sales in all of FY '23. Demand continued to accelerate in Q1 with over \$450 million in Gen AI sales. As you know, we are investing \$3 billion in AI over 3 years. For many of our clients, 2023 was a year of generative AI experimentation. We are now focusing on helping our clients in 2024 realize value at scale.

We're excited about the recent launch of our specialized services to help companies customize and manage foundation models. We're seeing that the true value of Generative AI is to deliver on personalization and business relevance. This is driven by context and accuracy. Data readiness, along with foundation model choices and customization, are some of the most important steps and decisions that companies will make in the next year as they pursue value.

Our clients are going to use an array of models to achieve their business objectives. Our proprietary switchboard allows the user to select the combination of models to address business context or factors like cost or accuracy. And we will offer rigorous training and certification programs to organizations using these new services to customize and scale Gen AI solutions and transform every link in their value chain.

We are also investing in AI acquisitions. For example, we recently announced our intent to acquire Ammagamma, an Italy-based firm that helps companies advance their uses of AI and generative AI technologies. With this acquisition, we will add 90 experienced AI professionals, many specializing in generative AI, along with expertise that includes engineering, mathematics, economics, historians, philosophers and designers, who will join our growing network of professionals in our Advanced Center for AI. And we are progressing towards our goal of doubling our deeply skilled data and AI practitioners from 40,000 to 80,000, with an additional 5,000 practitioners as of Q1.

Finally, a few additional highlights of the 360° value that we created this quarter. We recently achieved our highest brand value and rank to date on Interbrand's prestigious Best Global Brands List, increasing to \$21.3 billion in ranking # 30. We jumped from #17 to #10 on the 2023 World's Best Workplaces list by Fortune and Great Place to Work. This recognition is particularly noteworthy because it is based on feedback from our people. We were recognized for the seventh year in a row on the Wall Street Journal list of Best Managed Companies for excellence in customer satisfaction, employee engagement and development, innovation, social responsibility and financial strength. And we also received the top score for social responsibility and are among the top 10 for customer satisfaction.

We continue to lead in our ability to attract people with different backgrounds, different perspectives and different lived experiences. Our success is reflected in the top score on the Human Rights Campaign Corporate Equality Index in the U.S. for the 16th consecutive year, for leading equitable workplace policies, practices and benefits for LGBTIQ+ people. And today, we're proud to present an update to our 360° Value Reporting Experience, which is available on our website, because we believe that transparency builds trust and helps us all make more progress.

Over to you, KC.

#### **KC McClure**

Thank you, Julie. Happy holidays to all of you, and thanks for taking the time to join us on today's call. We are pleased with our Q1 results, which were in line with our expectations and include continued investments at scale to strengthen our position as a leader in the market. Once again, our results illustrate our ability to manage our business with rigor and discipline and deliver value for our shareholders.

So let me begin by summarizing a few of the highlights for the quarter. Revenues grew 1% local currency with mid-single-digit growth or higher in 5 of our 13 industries, including public service, industrial, utilities, health and energy. As expected, we saw continued pressure in our CMT industry group. And we continue to take market share.

As a reminder, we assess market growth against our investable basket, which is roughly two dozen of our closest global public competitors, which represents about a third of our addressable market. We use a consistent methodology to compare our financial results to theirs, adjusted to exclude the impact of any significant acquisitions through the date of their last publicly available results on a rolling 4-quarter basis.

We delivered adjusted EPS in the quarter of \$3.27, reflecting 6% growth over EPS last year. Adjusted operating margin was 16.7% for the quarter, an increase of 20 basis points over Q1 last year and includes significant investments in our people and our business. Finally, we delivered free cash flow of \$430 million and returned \$2

billion to shareholders through repurchases and dividends. We also invested \$788 million in acquisitions across 12 transactions in the quarter.

With those high-level comments, let me turn to some of the details, starting with new bookings. New bookings were \$18.4 billion for the quarter, representing 14% growth in U.S. dollars and 12% growth in local currency with a book-to-bill of 1.1. Consulting bookings were \$8.6 billion with a book-to-bill of 1.0. Managed Services bookings were \$9.8 billion with a book-to-bill of 1.3.

Turning now to revenues. Revenues for the quarter were \$16.2 billion, a 3% increase in U.S. dollars and 1% in local currency and were at the top end of our guided range, adjusting for a foreign exchange tailwind of approximately 1.5% compared to the 2.5% estimate provided last quarter.

Consulting revenues for the quarter were \$8.5 billion, flat in U.S. dollars and a decline of 2% in local currency. Managed Services revenues were \$7.8 billion, up 6% in U.S. dollars and 5% in local currency.

Taking a closer look at our service dimensions. Technology services grew mid-single digits, Operations was flat, and Strategy and Consulting declined mid-single digits. Turning to our geographic markets. In North America, revenue declined 1% in local currency. Growth was led by Public Service, offset by declines in Communications & Media, Software & Platforms and Banking & Capital Markets.

Before I continue, I want to highlight that for this fiscal year '24, we have reorganized our geographic segments. Europe is now EMEA and includes the Middle East and Africa, which were previously included in Growth Markets. The reclassification for prior years can be found in our Investor Relations website. In EMEA, revenues grew 2% in local currency, led by growth in Public Service and Banking & Capital Markets, partially offset by a decline in Communications & Media. Revenue growth was driven by Italy, Austria and France, partially offset by a decline in the United Kingdom.

In Growth Markets, we delivered 5% revenue growth in local currency driven by growth in Chemicals & Natural Resources, Public Service and Banking & Capital Markets. Revenue growth was led by Japan.

Moving down the income statement. Gross margin for the quarter was 33.6% compared to 32.9% for the first quarter last year. Sales and marketing expense for the quarter was 10.5% compared with 9.8% for the first quarter last year.

General and Administrative expense was 6.4% compared to 6.6% for the same quarter last year. Before I continue, I want to note that in Q1, we recorded \$140 million in costs associated with our business optimization actions, which decreased operating margin by 90 basis points and EPS by \$0.17. The following comparisons exclude these impacts and reflect adjusted results.

Adjusted operating income was \$2.7 billion in the first quarter, reflecting a 16.7% operating margin, an increase of 20 basis points from operating margin in Q1 last year. Our adjusted effective tax rate for the quarter was 23.2% compared with an effective tax rate of 23.3% for the first quarter last year.

Adjusted diluted earnings per share were \$3.27 compared with diluted EPS of \$3.08 in the first quarter last year. Days service outstanding were 49 days compared to 42 days last quarter and 48 days in the first quarter of last year. Free cash flow for the quarter was \$430 million, resulting from cash generated by operating activities of \$499 million, net of property and equipment additions of \$69 million. Our cash balance at November 30 was \$7.1 billion compared with \$9 billion at August 31.

With regards to our ongoing objective to return cash to shareholders, in the first quarter, we repurchased or redeemed 3.8 million shares for \$1.2 billion at an average price of \$311.90 per share. At November 30, we had approximately \$5.4 billion of share repurchase authority remaining.

Also in November, we paid a quarterly cash dividend of \$1.29 per share for a total of \$810 million. This represents a 15% increase over last year. And our Board of Directors declared a quarterly cash dividend of \$1.29 per share to be paid on February 15, a 15% increase over last year.

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

And now let me turn it back to Julie.

### **Julie Sweet**

Thank you, KC. As we begin our second quarter, we remain laser-focused on creating value for our clients. The pace of spending continues to be impacted by the macro environment. Our business in the U.K. in particular, in Q1 saw even greater challenges than we expected last quarter. The fundamentals of our industry remain unchanged. All strategies continue to lead to technology and companies 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. Strategy & Consulting, which brings our deep industry and functional expertise, is critical to how we differentiate by helping our clients ensure they drive business value from their digital core.

We are continuing to see significant demand in areas like cloud migration and modernization, modern ERP, and, data and AI, including Gen AI, platforms and security. All of which represent areas of great opportunity and it's still early with more digital core to be built in the future than has been done to date.

Let me bring to life the significant opportunities still ahead with examples from the quarter. Our cloud momentum continued in Q1 with strong double-digit growth, reflecting the ongoing significant market opportunity. We estimate only 40% of enterprise workloads are in the cloud, of which only 20% or so are modernized, an 80% opportunity remaining. Clients are continuing to prioritize the digital core as evidenced by strong demand for cloud migration.

We're working with the leading insurance provider to continue their cloud transformation. Together, we are migrating hundreds of applications to a cloud-based platform, enabling the company to exit their data centers by 2025. To date, we have migrated more than half of their apps to the cloud. And this is not just a migration. We are modernizing applications and accelerating automation to integrate disparate data more easily from acquisitions and help the company move into new markets. And we are helping reshape their organizational mindset, drive cultural change and find new ways of working, including the creation of a new IT service model to lead complex transformations with agility and speed. This transformation will reduce legacy complexity and technical debt, enable more cost-effective back-office operations and drive growth and innovation, ultimately helping the company provide more affordable and personalized insurance solutions for families and businesses.

And for those clients who have made significant progress on their migration, they are investing to modernize and innovate across the cloud continuum, extending cloud to the edge, unlocking greater value with more opportunities still ahead.

For example, we recently announced an expansion of our strategic partnership with McDonald's to help execute their technology strategy and leverage the company's scale to unlock greater speed and efficiency for customers, restaurant teams and employees. This new work supports McDonald's ambition to connect restaurants worldwide with cloud technology and apply generative AI solutions across McDonald's platforms. Accenture also will support the acceleration of automation innovation and the enhancement of the digital capabilities of McDonald's employees. Accenture's deep understanding of the McDonald's business, industry and technology will help unlock opportunities in their ongoing digital investments as McDonald's reinvents the customer experience and stays ahead of their customers' changing needs.

Turning to data and AI. We estimate that less than 10% of companies have mature data and AI capabilities. This is a critical part of building the digital core, and we see this embedded in our larger transformations in work focused on data and AI modernization and in the opportunities of generative AI.



We help leaders such as BBVA, a global financial services group, to stay ahead of the curve by continuing to reinvent its business model with Gen AI. For example, we are building a Gen AI powered financial coach assistant to help them disrupt customer centricity in the banking industry while they reinvent their digital core to also become even more efficient. This work is a continuation of our ongoing Gen AI implementation, which is transforming BBVA's operations and digital marketing and is helping employees be more productive. Thanks to its strong digital core, BBVA can continue to reinvent across their enterprise by applying Gen AI.

We're also helping a global hospitality group to support its content production capability and marketing communications across its hotel brands, tailoring content to guests' evolving needs. This new data-driven content supply chain model will create personalized, flexible and efficient marketing communications content across every customer touch point. Spanning both physical and digital communications, this service will be available to all marketing professionals, enabling content production management from its initial brief, to performance measurement and content optimization. This will increase the effectiveness of its digital marketing programs, drive more traffic to its branded website and deliver exceptional customer experiences, all while reducing costs.

Platforms are a core component of the digital core and are critical to our clients' transformations. We estimate 60% of the opportunity is still ahead as clients upgrade their core platforms. We are working with OCBC Group, a Singapore-based multinational banking and financial services corporation on a two-year transformation journey to modernize their human resources organization. We will shift key HR functions, such as hiring, talent management and career development to the cloud and create a next-generation HR operating model with enhanced capabilities. Together, we will drive operational efficiency with a strategic focus on future talent readiness, employee experience and AI-driven decision-making. And by providing a scalable framework to meet evolving business needs we'll free up HR capacity to provide high-value advisory work and empower business and HR leaders with analytics and insights to facilitate better talent decisions.

Security is also essential to a digital core and we continue to see very strong double-digit growth in our security business this quarter. While the opportunity continues to grow and expand, we estimate that currently only 36% of business leaders are confident that their organizations are cyber-resilient, representing at least 64% of untapped potential.

An example of our important work with our clients to build secure organizations is Fortrea, a global contract research organization of about 19,000 people that provides clinical trial and research services for life sciences companies in more than 90 countries. We're working with Fortrea to deliver database outcomes and health-related insights, which require adherence to regional and local industry and government regulations. As they continue to grow and enter new markets, they

need a partner to ensure that their cybersecurity program remains resilient and compliant with security best practices. We will co-create, architect and operate a series of global cybersecurity services and capabilities through our managed services. Our partnership will help Fortrea grow its business, utilizing flexible risk and security strategies.

We are focused on helping clients reimagine marketing and their customer experience to drive growth. Song demand continues to remain strong with double-digit growth in Q1. We are collaborating with Peugeot, a French automotive brand to lead strategic and creative direction for its global communications. The partnership supports Peugeot's ambition to engage a younger audience and become a leader in the electric vehicle market. Accenture Song will manage global communications across all traditional and digital media channels. The first campaign will be a full-360 integrated launch of the all-new Electric Fastback SUV E-3008 in early 2024.

Finally, we continue to see strong demand for digital manufacturing and engineering services. We estimate that only 5% of enterprises have scaled mature digital capabilities across their organizations. Industry X grew strong double digits in Q1.

We are working with a leading German multinational car manufacturer to engineer the next generation of infotainment system. Using our deep industry expertise and software engineering capabilities, we will support the implementation of a new flexible platform that enables the next level of in-car experience with cutting-edge customer features while minimizing complexity and maximizing the software we use across hardware generations.

We're working with a global food manufacturer on a total enterprise reinvention strategy to modernize its supply chain, reduce operating costs and position it for the future. We will transform key supply chain processes such as planning, procurement, manufacturing and distribution. AI and intelligent automation will optimize end-to-end supply chain operations and achieve greater efficiency and agility. It will also help the company leverage data for better decision-making and implement portfolio optimization to ensure the right assets are focused on for investment to maximize returns and minimize risk. This self-funded program is expected to generate significant productivity gains with ongoing savings fueling further capability builds and bottom line growth.

Back to you, KC.

**KC McClure**

Thanks Julie.

Now let me turn to our business outlook.

For the second quarter of fiscal '24, we expect revenues to be in the range of \$15.4 billion to \$16 billion. This assumes the impact of FX will be about negative 0.5% compared to the second 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 continue to assume the impact of FX on our results and U.S. dollars will be about flat compared to fiscal '23. For the full fiscal '24, we continue to expect our revenue to be in the range of 2% to 5% growth in local currency over fiscal '23, with the inorganic contribution now expected to be more than 2.

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

We continue to 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 continue to 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 continue to 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 continue to 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.

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 Jason Kupferberg from Bank of America.

## **Jason Kupferberg, BofA Securities**

Happy Holidays. I just wanted to start with a question on the revenue guidance for Q2. The midpoint there would suggest a point of deceleration, but we do have an easier comparison and there was a return to positive growth in consulting bookings. So just hoping you can help us reconcile that and then maybe comment on the second half reacceleration that is continuing to be implied in the guide, maybe slightly steeper than previously thought.

## **KC McClure**

Yes. Great. Thanks, Jason. Happy Holidays to you, too. So first -- let me first start in terms of our guidance. I'll first start with Q1. And as you heard us say, we were really pleased with our Q1 performance. And as you stated, our Q2 guidance is the same as Q1. And maybe a couple of things that I'll point out compared to what we thought 90 days ago. And as Julie mentioned, we do see some differences in EMEA, particularly in the U.K., where we're focused on repositioning the business back to growth, and that's going to take some time. But Jason, what is the same is that we are still operating in an environment, which is the same that we described last quarter, where the discretionary spend and the decision-making is slow. And so right now, as you expect and you know that we do this every year, we're talking to our clients right now about their '24 budgets. And so that's all, again, to be expected.

When we look forward, into H2, to start with just what the math is, we continue to see higher growth in the back half of the year. That's going to start with higher growth in Q3. And our confidence in our H2 increased growth is really based on a few things, again, reiterating what we talked about at the beginning of the year versus our results in Q1. And so we're confident again that we were able to deliver across the board as we expected in the first quarter.

And also then, as Julie mentioned, quite a bit, we made a lot of investments in our business in the quarter. And that's helping us pivot to higher growth areas. In addition to that, as we talked about last quarter, the same remains, we do have our revenue positioned in the back half of our year from these larger transformation deals, so that has not changed. We continue to see that. And then we just need to continue to layer in our new sales as we get closer to the back half of the year. So we're really very pleased to reiterate the 2% to 5% revenue guidance that we had at the beginning of the year.

## **Jason Kupferberg, BofA Securities**

Okay. That's helpful. And just as a quick follow-up, what should we expect in terms of second quarter bookings for consulting and managed services year-over-year? I know managed services has a particularly tough comp.

**KC McClure**

Yes. So Jason, I know I've been giving color and basically kind of guiding for future quarter bookings. But as you know, really well, covering us for so long. Bookings can really be lumpy. So I'm not going to give that color anymore, go forward. What I would say is the best way to think about demand for our business is the revenue guide that we give, and we gave revenue guidance for the second quarter as well as our 2% to 5% for the full year. And obviously, we'll continue to do that. And I would just put it in that we do feel good about our pipeline. We have a very solid pipeline.

**Operator**

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

**Tien-Tsin Huang, JPMorgan**

I just want to follow up to Jason's question. Just with the bookings, which is better than expected and your large deal backlog is quite large now. Just the visibility on the timeliness of those conversions? Have you seen any signs of pushout or delays or that kind of thing, just trying to understand the conversion potential?

**KC McClure**

Yes. So maybe just a couple of things on that. So I think conversion can be really mainly impacted by the mix, right? So the mix of deals that we have. So let's just start with overall, we haven't seen any change in the conversion based on the mix of work. So Strategy and Consulting, which converts faster, then, you know, with Operations, there's been no change within those different parts of our business, no change in the conversion.

What we have talked about and we've been consistent that there's really been -- there's no change over the last 90 days in our discretionary spend environment, and that is consistent with our expectations. And we haven't been reliant and we're not reliant on the change in that macro to get to our full year guidance. What does that mean? Hopefully, you guys can hear me - there's trouble on the line. Okay, as we have lower discretionary spend, that does impact the conversions, Tien-Tsin, as you know, but we have factored that all into our guidance.

**Tien-Tsin Huang, JPMorgan**

Understood, KC. And just my quick follow-up. I know you've been really busy with acquisitions and Julie, you listed a bunch of them. Is there a change here in the rhythm of acquisitions or your appetite? It sounds like the revenue contribution is

up a little bit, but you tell me, I didn't know if there's a change in your thinking here on the deals.

**KC McClure**

Yes. I'm going to maybe give a little bit of color and then I'll certainly hand it over to Julie. Just more from a financial perspective, I think, and as you know this really well, our competitive advantage really is our investment capacity that allows us to pivot to higher areas of growth. And we can do that and invest through every cycle, and you've seen us do that. And I really think that is clearly a differentiator for us.

You see that with our strong start this quarter, Julie talked about the 12 acquisitions, \$800 million of spend, and we have 5 more that we've announced for Q2. All of that, and we're reconfirming op margin expansion of 10 to 30 basis points. I think it's important to see that in terms of our strategy, we're continuing to do this to really fuel organic growth. And lastly, I think one of the parts that really distinguishes us is our capital allocation framework, which is durable yet flexible. So we're able to flex up and do inorganic to the degree that we'd like to, while at the same time, continuing to increase our return to our shareholders. So I think it's really, really great.

**Julie Sweet**

Great. Yes. And there's no change in the strategy, in the sense that we're still trying to -- we're still investing to either scale in hot areas or add new types of skills. So you see that we're executing in capital projects like we described, right? In August, we did the Answer Advisory. We just added Canada and then, of course, adding the niche skills and consulting and - whether it's industry or functional. So no change in strategy.

But I would reiterate that it is really a huge competitive advantage for us that we can invest across the cycles. You saw that we did that in the first year after the pandemic, where we significantly increased, and again, always to drive organic growth and position ourselves for those next wave. So you're going to see the AI acquisitions. You saw health in the U.K., another great area of growth, capital projects. So think about our strength here is how we accelerate pivoting to growth.

**KC McClure**

And then I'll just add, Tien-Tsin, that you heard me mention in guidance that we are going to do now more than 2% inorganic contribution for this year.

**Tien-Tsin Huang, JPMorgan**

No, I'm sure you'll amplify the growth of what you buy. Just wanted to check on that. That's helpful.

**Operator**

Your next question comes from the line of Ashwin Shirvaikar from Citi.

**Ashwin Shirvaikar, Citi**

Thanks and congratulations on the performance. Happy Holidays from me. I wanted to ask about -- as you have conversations with your clients with regards to budget and spending priorities into next year, if you can comment, first of all, on that. And then it's only a couple of quarters since Gen AI kind of took hold, but it's a fast-moving technology, and I want to kind of inquire into whether the nature of those discussions has changed, become more meaningful, gone past proof of concept and so on.

**Julie Sweet**

Great. And Happy Holidays to you, too. Great question. So first, with respect to -- on your first point around what's happening in the market on client budgets is what I would say is that we're having lots of discussions that are pretty similar to what we've been talking about, which is how do you prioritize in a more cautionary environment. So we really know how that will play out in January as always, because this is when they finalize.

But what I'd say is it's the consistent thing I've been talking about, which is in a cautionary environment, in a tough macro, we're helping clients prioritize and they're in the things that we talked about in the script again today, things like building the digital core. It's using the technology to drive both growth and cost. And I would just say on the macro side, right, is that our clients recognize you cannot cut yourself to growth. And if you think about the examples that I used in today's script, most of them were both cost and growth, right? Because that is what our clients are focused on, is how are they going to grow revenue despite whatever the environment is. And that, of course, is our unique capabilities to be able to do both.

And then with respect to Gen AI, so first of all, I just want to say, \$450 million in sales this quarter, we're very pleased with. I mean, it demonstrates we are leading

here. All of last year, it was \$300 million. And to your point, the conversations are changing. You have examples like BBVA, which we talked about earlier in my script, where we're starting to use it at scale. Our clients want to get out of proof-of-concept to material value, and we're super well-positioned. Why? Gen AI is not plug-and-play. It is not just technology. In fact, it's closer to, of any other technology, think about cloud, that's farther away from the heart of the business.

In order to scale, you have to deeply understand the technology, which is still rapidly changing, and the business value. And this is Accenture's leadership position, right? We have strategy, we have consulting, deep industry and functional expertise, we are the biggest partner with every major player. We're working with them at a product level, and we can bring those two things together. So think of 2024 as being the shift for our clients from experimentation to scale, and we believe we're the best positioned to lead that shift to value.

### **Ashwin Shirvaikar, Citi**

Understood. I want to ask also about the Operations performance. It did decelerate meaningfully. I think it was high single-digit growth and now it's flat. Is that also a reflection you mentioned just now, maybe a pivot from cost savings to revenue generation, maybe is beginning. Is that what's happening? Or are there other factors in here?

### **KC McClure**

Yes. Maybe just in terms of the quarter performance. Operations came in as expected. As we talked about at the beginning of the year, Ashwin, we do have some impacts in CMT that impact Operations. And so we'll see the growth may fluctuate as we go throughout the year. That's part though, of our overall guidance for the full year of managed services - continue to be mid-single to high single-digit growth for the year.

### **Julie Sweet**

Yes. And in fact, I would say it's the opposite. Operations, which was impacted by the way, by CMT, for example, look, it's going to build similar to the way Accenture is going to build over the course of the year. Actually, the sweet spot of Operations is that it does both cost and growth. So the BBVA example includes Operations, Fortria includes Operations. So our managed services are highly strategic because they are typically able to do both.



Think about IT transformation. Our managed services are as much about modernizing. So on IT, modernized tech is what drives growth. So we really see our strength being that our managed services are strategic. And one of the reasons is that we do them in the context of understanding the industry and the function. So we're not back office. We're bringing that Strategy and Consulting expertise to make sure that it isn't just a cost play, and that's an important differentiator for us.

### **Operator**

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

### **Bryan Bergin, TD Cowen**

Happy Holidays. Wanted to start on some of the expectations around shorter cycle and discretionary work within S&C and SI, do you have a sense of stabilization forming there or cuts still occurring in those areas? And maybe can you give us a sense on how you expect consulting to do in the second quarter?

### **Julie Sweet**

Yes. So look, as KC said earlier, we're operating kind of the same environment we have for the last few quarters, right? Discretionary spend is down. And we're right in the middle of the budget cycle. So next quarter, we'll have a much better view of what's there. But as you sort of look around in the environment, there aren't a lot of green shoots on the economic side. And obviously, the volatility on the geopolitical side continues.

And so as KC said, we're not planning right now for kind of a change in the macro which means that we're not planning for a change in discretionary spending. We just don't see that being meaningfully different as we go into 2024. And obviously, we'll update you. But that's why when you think about like the question earlier on revenue conversion, our level of smaller deals is just down. It's going to stay down for a while, which means that how sales are going to bleed into revenue is going to be consistent with what we've been seeing. And then, you want to comment?

### **KC McClure**

Yes. Just in terms of, Brian, on the overall growth, there's no change from what we said at the beginning of the year in terms of our full year outlook for consulting type

of work. We see low single-digit, positive growth for the full year. That's in our 2 to 5. And Q1 came in as we expected, which was negative 2.

**Bryan Bergin, TD Cowen**

Okay. That's helpful. And then just a clarification around the M&A. So first, I don't know if you mentioned M&A in the first quarter, the contribution of growth. And we're saying greater than 2% for the full year. Just to be clear, that's just rounding around 2? Or are we upwards of 3?

**KC McClure**

Yes. Yes. So we're saying more than 2 for the full year, and it can fluctuate by quarter. So we really just stick to our guidance for the overall year.

**Julie Sweet**

Right. And if we get close to 3, we'll talk about that. But right now, it's more than 2 because we gave you guidance, it's now definitely more than 2. And remember, we only do deals that we think are good deals. So what we see right now is a lot of good deals that is going to get us to above 2 -- and we have a lot of financial flexibility. So if that changes, we'll update if it gets above 3%.

**Operator**

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

**Dave Koning, Baird**

One thing I noticed, I guess, gross margin growth, year-over-year expansion of gross margin was the strongest in about 9 quarters or so. Is that just lower attrition, offshore shift? Maybe walk through why that's gotten nicely better.

**KC McClure**

Yes. Dave, thanks for the question. So as you know, we run our business to operating margin, which we did 20 basis point expansion this quarter. And I will mention that if I didn't already that the 10 to 30 that we have for the year, we might see more variability as we go throughout the quarters. But now back to gross margin, you're right, we did see expansion this quarter, but it's really hard to look

at that in isolation. And why is that? Well, there's various things that can go in and out of gross margin in terms of increase or decrease spend.

So for example, one would be acquisitions. Some of the investment acquisitions, some of that spend, will go into great gross margin, and that can be lumpy as we go throughout. As you know, it also depends on where people spend their time. So for example, you saw that yes, we had improvement in gross margin, but then we also had increased sales and marketing costs, which is a result of people spending more time out in the market selling to create the \$18.4 billion in sales that we have. So that's why, again, we look at those components, but really, at the end of the day, we always continue to run our business to op margin.

### **Dave Koning, Baird**

Got you. And then maybe as a follow-up, just to Jason's question at the beginning on kind of the back-end loaded growth. If I just put in normal sequential patterns in Q3 and Q4, I get to about 2% constant currency. So the low end of guide. Is there a scenario given bookings were really good this quarter that it actually -- the progression sequentially in the back half of the year is better than normal, and then that kind of gets to the better parts of the guidance range for revenue.

### **KC McClure**

Yes. So I think obviously, what you're just kind of talking about is a bit of the math, what I would do is give you the year-over-year, the way we look at it in terms of our guidance, right? We had 1% growth this quarter with strong bookings -- right, 1% revenue growth with strong bookings. We see Q2 shaping up the same way year-over-year. And again, just reinforcing that we do see fuel in our sequential growth in the back half of the year based on the transformation deals that we have signed. That's no different than what we talked about at the beginning of the year. We've layered in then the sales that we expect as we go throughout. And that there's no difference to how we're doing our range. That gets us to the 2% to 5% range.

I would say at the top end of our range, again, as we said last quarter, just when you said guidance that when to get to the top end of our guidance range, you would see S&C reconnecting with growth, would be one thing that we'd see. And you would probably also see the mid to high single digits that we've been referencing consistently in managed services to be more like high single digits. So hopefully, that helps, Dave.

**Dave Koning, Baird**

Yes. That's helpful.

**Operator**

Your next question comes from the line of Brian Keane from Deutsche Bank.

**Brian Keane, Deutsche Bank**

I just wanted to ask a clarification on the U.K. market in particular. I know the economy has been weak there for a couple of years. So -- and I know it's been a call out for kind of the quarter. What exactly happened in the U.K.? And then what's the outlook for that?

**Julie Sweet**

In the U.K., as you said, it has been kind of challenged for a couple of years, and we have a big banking capital markets business there. And we're really trying to pivot to more growth there in other areas. That's why you saw the acquisitions that we did, for example, this quarter. And what we're seeing is that it's just taking longer than we anticipated to really move into the other areas in banking, capital markets, which we've talked about, has been more challenged, particularly in the U.K. And so it's really about how long it's taking us to pivot, and we think it's going to take some time. So I'm not going to call exactly when, but we do think it's going to take some time, and it's taking more time than we anticipated going into the fiscal year. So we've got a good team. We're on it. And again, this is where you're going to see us do more acquisitions to diversify our business there as we reposition that.

**KC McClure**

Yes. Maybe just also, Brian, just for context, it's about 6% of our overall business, a little bit more than \$4 billion, that we have in the U.K.

**Brian Keane, Deutsche Bank**

Got it. No, that's helpful. And then, KC, just to make sure we understand the comments on the margins. Given the movement in acquisitions and the pickup in

acquisitions, there could be some fluctuations in given quarters. So you're not going to have it perfectly in the range of 10 to 30 per quarter. Any quarters to call out in particular, where it could fall below the range given the ramp of acquisitions and the ramp of investments?

**KC McClure**

Yes. No, I don't want to really guide to the quarter because 10 basis points or 20 basis points on a quarter, that's spend, Brian, as you know, that's kind of big and small in terms of the dollar amount that we're talking about. So we're going to guide overall to the full year of 10 to 30 for the full year. And I just want to point out that we might have some periods where it's just a little bit more variable than what you've seen us do over the years.

**Operator**

Your next question comes from the line of Darrin Peller from Wolfe Research.

**Darrin Peller, Wolfe Research**

Just want to touch on headcount growth. I mean, it's still a bit decelerating. And so what are the expectations going forward? I mean, just given the backdrop of an acceleration on the revenue in the second half of the year. And then Julie, maybe we could just touch on the linearity of the business one more time. Just if we could revisit the mix of the kind of business you're seeing now and the revenue per head you'd expect or maybe just directionally, what you'd anticipate based on the mix we're seeing and what demand is for?

**KC McClure**

Yes. So thanks for that, Darren. So I'll talk about, in terms of the number of people we have, first, I'll start with, as you know, managing supply/demand is really our core competency. And you can see that in our ability to manage our utilization at high levels. And I'll just point out that for the last 13 quarters, our utilization has been 91% or higher. And so we hired for the skills that we need and we hire where we need them.

And what you're pointing out is that we had about a 1% increase year-over-year in our head count as well as about 1% sequentially. And that's in line with how we see revenue going for the rest of the year. So there's really no change there. And as it

relates to the revenue per head and the nonlinearity, I mean we do have automation. We do have value-based projects. So while there still is a, obviously, connection to the amount of people that we have, we have been able to break that. There are parts where we were able to not fully disconnect, but not completely rely on headcount to drive revenue.

## **Julie Sweet**

Yes. And Darrin, and in terms of just demand, right, so I'd kind of anchor to, first of all, we're seeing demand for transformational deals. So in an environment like this, the thing that I look at most is, are we continuing to have our clients do more than \$100 million of bookings, right, which is in our industry, we are a real standout here. And what does that mean? That means that we continue to be at the heart of where clients are spending to do material transformations. That's where you want to be so that you're positioned when inevitably, discretionary spending, the pace goes back up, the macro changes, you want to be at the heart. So at times like this, that's what I'm really looking at.

And that's where you're seeing -- I will tell you, this is one of the most exciting times in the market. Like you just take what we are announcing today on McDonald's, I talked about it in the script, right? Incredible company, technology-driven. We've been their longtime partner, just expanded the partnership to take it all the way to the edge and reinvent their restaurants and their crew experience. This is going to be really cutting work at the edge because that's where we're starting to see the leaders in cloud go and we're leading there. Those are the kinds of things that then you see how they're going to expand. There's so much opportunity still in these big areas of like cloud, of data and AI. I mean, but cloud itself, yes, we've done a lot of migration. There's still more migration to go, but even more importantly, you got to take it all the way to the edge. So from a demand perspective, we continue to see the transformations that move the needle for cost and growth and that's what we're expecting.

From a mix perspective, we're not seeing a big change between managed services and consulting. The mix we're seeing is that in this environment, you're seeing less of the smaller deals, which convert to revenue faster and more on the larger deals. And that's been around for a while, and that's what you're going to continue to see, and we are laser focused on making sure we are winning in the reinvention, the transformation. And at the same time, massively pivoting to Gen AI, right? And our clients have so much work to do to be able to use Gen AI, but you can see the momentum in our business, right, from that change from \$300 million of all of last

year to \$450 million in a quarter. And I'll just remind you that's not the pull-through, that's not data. We are very pure because we really want to be sharing with all of you where is Gen AI in the market. So we're pretty excited about where we are today and what's ahead.

**Darrin Peller, Wolfe Research**

That's really helpful. Look, you guys have obviously managed well through what was a softer discretionary demand environment. So I guess my question would be if we thought about what a normalized run rate of revenues on, really, S&C would be. If we just said today is a normal, no longer softer discretionary environment. Where do you think the difference is? I mean, I know it's probably hard to give an exact or precise estimate, but how much upside is there when we get that back?

**Julie Sweet**

Well, we have a really strong strategy and consulting business. And so we're very positive about that business growing. But beyond that, I think, Darren, we're not going to start to predict growth rates. But in the meantime, it is a huge differentiator. Nobody has that combination that we have and that is what is driving the resilience of our business to be at the core of our clients' agenda.

**Katie O'Conor**

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

**Operator**

That question comes from the line of James Faucette from Morgan Stanley.

**James Faucette, Morgan Stanley**

I want to just ask a couple of follow-up questions to those that have already been asked. First, on the inorganic contribution. I appreciate that it's going to be better than 2%. Can you talk a little bit about whether that increased activity is -- and how you would balance that increased activity between just better valuations and more opportunities from a purely financial perspective in the market versus -- it sounds like some of the acquisitions you're doing, you're trying to push into new strategic areas. And just wondering how you're balancing those strategic imperatives versus perhaps a little better valuations?

## **Julie Sweet**

Yes. I mean I wouldn't call out -- I wouldn't say that this activity is because of better valuations, right? At any given time, when we look at the market, right, and we see, where are the growth opportunities, we want to move quickly, and we look at organic versus inorganic ways of moving quickly. We never do anything purely inorganic, right, or purely organic. And so think about our acquisitions as being matched to what is the opportunity in the market and what's the best way to capture that growth quickly, right?

And so the strategy of categories is the same, right? There are new areas that we want to go into, like capital markets. That's an investment decision. We go into a certain number of those, we're executing now with rigor. We bought Anser Advisory, now we bought the next one in Canada, right? So that's just about -- it's a great growth area and we're trying to pivot. And the best way to do that, to build something that we don't have already organically, is to make some inorganic acquisitions and then that becomes organic growth, and we're able to kick in our recruiting machine. If you think about the U.K., health is a great area. We just bought a health company, right?

So you look at the market and you say, if I want to diversify, what's the fastest way to diversify into new areas, and that's where often inorganic can help us do that through these niche acquisitions and consulting and industry. And then you've got just massive opportunities like cloud and security where you saw some of those acquisitions and supply chain, and that's all about both adding phenomenal talent quickly, and scaling to go after a market that's today, right?

So that's how we think about it. It's extremely rigorous. We always have a decision, what's the best way to get there organically or inorganically. And inorganic is always about acceleration and driving organic growth. So it's very consistent. We've been doing it in a very disciplined way. And in these kinds of environments, we believe the companies that invest win. And that is why we do actions like we did last year to increase our business resilience and enable us to be really well positioned to invest when others are not.

## **James Faucette, Morgan Stanley**

That's great color. I appreciate that. And similarly, just on bookings activity and AI contribution, there's clear acceleration in the AI level of activity, et cetera. What --



when you're talking to clients and that kind of thing, how are they thinking about AI budget allocation versus other initiatives, et cetera, right now? Are they looking at it as, hey, this is an incremental investment that we need to be making given the pace of change in technology? Or are they trying to really use that spend or have that spend be to offset some other projects maybe that they're going to curtail a little bit sooner? Just trying to think about as that continues to build, how we should think about it being incremental versus substituted within a lot of the budgets.

## **Julie Sweet**

Right now, we're seeing a lot of reprioritization, right? Because, obviously, the market is growing. Like we're growing, the market is growing. So spending in technology is increasing. It's not increasing as fast as it was increasing a couple of years ago, right? So spending on technology is increasing.

But within that, you're seeing more prioritization. And our research, everybody's research is saying, hey, more spending on AI -- for lots of companies, it's also more spending, mostly on building that digital core because many companies don't have the data estates -- they're not in the cloud. They don't have the data in order to use the Gen AI. So think of it as a real focus on building a digital core to enable, as well. So the market is still growing. It's more about prioritization of where that spending is going.

## **CONCLUSION**

### **Julie Sweet**

Okay. Great. Thank you so much. So in closing, I want to thank all of our shareholders for your continued trust and support and all of our people for what you do every single day. And I wish everyone a happy and a healthy holiday season. Thank you for joining today.

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