Accenture

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Financial Results

Conference Call Transcript

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CORPORATE PARTICIPANTS

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Alexia Quadrani

Thank you, operator, and thanks everyone for joining us today on our second quarter 2026 earnings announcement. As the operator just mentioned, I'm Alexia Quadrani, Executive Director, Head of Investor Relations.

On today's call, you will hear from Julie Sweet, our Chair and Chief Executive Officer, and Angie Park, 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. Angie will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for the second quarter. Julie will then provide a brief update on our market positioning before Angie provides our business outlook for the third quarter and full-year fiscal 2026. 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 the quarterly reports on Form 10-Q and other SEC filings. These risks and uncertainties could cause actual results to differ materially from those expressed in this call.

During our call today we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures, where appropriate, to GAAP in our news release or in the Investor Relations section of our website at Accenture.com.

As always, Accenture assumes no obligation to update the information presented on this conference call.

Now, let me turn the call over to Julie.

Julie Sweet

Thank you, Alexia, and everyone joining us this morning. And thank you to our more than 786,000 people for your extraordinary work.

We delivered another strong quarter with:

$18.0 billion of revenue, growing 4% in local currency, and once again taking significant market share.

We had record bookings of $22.1 billion, bringing H1 bookings to a total of $43.0 billion. We had a record 41 clients with quarterly bookings greater than $100 million, bringing us to 74 of these bookings in the first half, 12 more than this time last year, demonstrating the continued demand for reinvention at scale.

We delivered 30 basis points of operating margin expansion, with strong EPS growth year over year, generating significant Free Cash Flow, while investing significantly in our business.

We closed 3 strategic acquisitions, deploying $1.6 billion of capital, and we now expect to deploy $5 billion in acquisitions this year, with capacity to do more for the right opportunities.

And double-clicking on our revenue:

Our revenue growth was broad-based across geographic markets and types of work. Revenue from our top 10 ecosystem partners continues to outpace our overall growth and we are expanding these partnerships; and we are on track in FY26, to more than double our bookings over FY25, from partnerships with our key emerging AI and Data ecosystem partners.

And we delivered these strong results through the disciplined execution of our growth strategy as our market remains roughly the same.

Our long-term growth strategy is to help our clients reinvent and to capture other new opportunities created by AI. To accelerate this strategy, we are using two key competitive advantages: our strong balance sheet and our long history of successful acquisitions.

Our goal with acquisitions is to more rapidly expand into higher growth areas with attractive margins, which will fuel organic growth and, increasingly, help us grow non-FTE related revenue.

In H1 we invested in four areas:

First, AI-powered transformation.

Last week, we closed the acquisition of Faculty, a leading UK-based AI-native services company with a decision-intelligence product business, that provides a platform for us to expand into areas of unmet AI demand, with non-FTE revenue.

We also acquired two companies to accelerate our growth with Palantir – an emerging ecosystem partner – Decho in the UK, which focuses particularly in defense and public sector markets, and RANGR Data, in the U.S., which works across industries.

Second, AI Enablers.

AI enablers include data centers, cybersecurity, energy infrastructure and data.

We acquired a 65% stake in DLB Associates, a data center engineering and consulting firm, with high double-digit growth.

We also acquired CyberCX, a leader in cybersecurity in Australia.

And we announced the acquisition of Ookla, a global leader in network intelligence, competitive benchmarking, and customer experience analytics. Ookla, with only 430 employees, generated $231M of revenue in their CY2025 through non-FTE subscription and licensing revenue models, at an 8% year over year growth rate and with healthy margins accretive to Accenture.

Third, High-Growth, Secular Trends.

These trends include capital projects, defense & public sector, and education around AI, data and tech.

We acquired Orlade group, a French capital projects firm, which expands our presence in the energy, utilities, rail and aerospace sectors, including nuclear power plants and power grids. This acquisition is also part of our focus on key AI enablers because AI requires significant expansion of energy infrastructure.

We also expanded LearnVantage, our business that is capturing the education opportunity, through the acquisition of Aidemy in Japan. A portion of our LearnVantage business, leveraging our proprietary platforms, operates with a non-FTE commercial model growing double digits.

Finally, Mid-Market Expansion.

We made two mid-market acquisitions — NeuraFlash and Total eBiz Solutions — and announced one, Cabel, to expand our presence in the mid-market, where we are experiencing higher revenue growth and a higher volume of smaller deal sizes that convert to revenue faster.

As we deliver this quarter, we also are executing at speed on our talent strategy for the Age of AI.

We now have over 85,000 AI and data professionals, already exceeding our goal of 80,000 professionals by the end of fiscal 2026.

Thanks to our intentional talent strategy, we will hire more entry level reinventors in FY26 than FY25, which is important for our financial model.

Just as our clients must reinvent, so must Accenture. Our reinventors completed 13 million training hours this quarter alone, and 192,000 completed our agentic AI fundamentals program—co-created with Stanford's Institute for Human-Centered AI. After significant investment and training, starting this year, we have made the use of the AI tools and contributions to helping Accenture become the most AI-enabled company in the world, now a formal part of our performance evaluation.

Finally, we are pleased at the number of external recognitions of our broad-based strengths that we have received in the last several months—please, check out these recognitions in our earnings presentation for the quarter.

Over to you, Angie.

Angie Park

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

We were very pleased with our second quarter results, with record bookings for the quarter, revenue at the top end of our guided range, strong margin expansion and robust free cash flow. These results demonstrate the resilience and durability of our business and continued execution of our strategy to be the reinvention partner for our clients. We delivered these results while continuing to invest for long-term market leadership and returning significant cash to shareholders.

Now, let me summarize a few highlights for the quarter.

Revenues grew 4% in local currency and were broad-based across geographic markets and types of work, reflecting the diversity of our business as we continue to take market share.

Operating margin was 13.8%, an increase of 30 basis points compared to Q2 results last year and continues to include significant investments in our business and our people.

We delivered EPS in the quarter of $2.93, which represents 4% growth compared to EPS last year.

And, finally, we delivered strong free cash flow of $3.7 billion and returned $2.7 billion to shareholders through repurchases and dividends this quarter. We also invested $1.6 billion, primarily attributed to 3 acquisitions in the quarter.

With those high-level comments, let me turn to some of the details starting with New bookings.

New bookings were a record $22.1 billion for the quarter, representing 6% growth in US dollars and 1% growth in local currency, with an overall book-to-bill of 1.2.

Consulting bookings were $11.3 billion, with a book-to-bill of 1.3.

Managed Services bookings were $10.8 billion, with a book-to-bill of 1.2.

Within bookings, the percentage of our work which is fixed price continues to increase over 60% in FY25. This reflects the rising importance of our proprietary platforms and clients' need for cost and delivery certainty—where our scale, experience, and financial strength matter.

Turning now to revenues…

Revenues for the quarter were $18.0 billion, reflecting an 8% increase in U.S. dollars and 4% in local currency, at the top end of our FX adjusted guided range, as the foreign exchange impact for the quarter was positive 4.4% compared with a positive 3.5% estimate provided last quarter.

Consulting revenues for the quarter were $8.9 billion --- up 7% in U.S. dollars and 3% in local currency.

Managed Services revenues were $9.2 billion --- up 10% in U.S. dollars and 5% in local currency, driven by mid-single digit growth in technology managed services, which include application managed services and infrastructure managed services and high-single digit growth in operations.

Turning to our geographic markets…

In the Americas, revenue grew 3% in local currency, led by growth in Banking & Capital Markets, Software & Platforms and Industrials, partially offset by a decline in Public Service, driven by our U.S. federal business. Revenue growth was driven by the United States. Excluding the 2% impact from our federal business, Americas grew approximately 6% in local currency in the quarter.

In EMEA, we delivered 2% growth in local currency, driven by growth in Insurance, Life Sciences and Public Service. Revenue growth was driven by the United Kingdom and Italy.

In Asia Pacific, revenue grew 10% in local currency driven by growth in Banking & Capital Markets, Communications & Media and Public Service. Revenue growth was led by Japan and Australia.

Moving down the income statement…

Gross Margin for the quarter was 30.3%, compared with 29.9% for the same period last year.

Sales and Marketing expense for the quarter was 9.7%, compared with 10.1% for the second quarter last year.

General and Administrative expense was 6.7% compared to 6.3% for the same quarter last year.

Operating Income was $2.5 billion in the second quarter, reflecting a 13.8% operating margin, up 30 basis points compared with results in Q2 of last year.

Our Effective Tax Rate for the quarter was 24.3%, compared with an effective tax rate of 20.4% for the second quarter last year.

Diluted Earnings per Share were $2.93, compared with diluted EPS of $2.82 in the second quarter last year, reflecting 4% growth.

Days Services Outstanding were 46 days, compared to 51 days last quarter and 48 days in the second quarter of last year.

Free cash flow for the quarter was $3.7 billion driven by cash generated by operating activities of $3.8 billion, net of property and equipment additions of $150 million.

Our cash balance at February 28th was $9.4 billion, compared with $11.5 billion at August 31st.

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

In the second quarter, we accelerated our share buybacks and repurchased or redeemed 6.8 million shares for $1.7 billion, at an average price of $246.09 per share. This brings our YTD total to $4 billion in repurchased or redeemed shares, which is a significant step up from the same time last year.

Also, in February, we paid our second quarterly cash dividend of $1.63 cents per share, a 10% increase over last year, for a total of $1 billion.

And now, back to you Julie.

Julie Sweet

Thank you, Angie.

I will start with the demand environment and then turn to why we see AI as a tailwind, which we believe will shape our growth over the next few years.

We saw again this quarter clients continuing to prioritize their most strategic and large-scale transformational programs which position us in the center of their reinvention agendas. As clients finalized their budgets going into calendar year 2026, we are seeing spending similar to 2025.

Demand continues to be driven by a few major themes:

First, clients are implementing foundational programs with our ecosystem partners to capture the full opportunity of AI. These typically involve cloud, security and data modernization, often combined with operating model and talent transformation. We continue to see at least 1 out of every 2 advanced AI projects lead to a data project.

Second, clients continue to look to reinvent faster, leverage our proprietary platforms and expertise and achieve greater efficiencies through managed services across the enterprise, and we see clients working with us to create more investment capacity to increase their spend in new areas.

And third, clients with more advanced digital cores are starting to take on larger AI programs. We also are seeing more moving from proofs of concept to production, while others are still at the beginning of their journey, with another 100 clients or so initiating Advanced AI projects with us this quarter.

Across many of these programs, AI and data are now central—sometimes as the destination, and increasingly as part of the work from day one.

A good example of these demand trends is how we are partnering with The Estée Lauder Companies, a global prestige beauty company, to advance its new 'One Operating Ecosystem' and to drive a more connected, scalable and consumer centric enterprise.

Enabled by our platforms, we will collaborate with the company to transform how work gets done, leveraging AI and automation across the end to end value chain. Over time, this is designed to accelerate execution and enable teams to focus on driving innovation, consumer experience and brand desirability. This work supports The Estée Lauder Companies in building the capabilities needed to activate new ways of working and aligning teams, technology, and partners to enable the business to operate with greater agility.

We see AI as a tailwind because it is helping us win more today and take market share and it is creating new opportunities for growth over time.

We are continuing to take market share quarter after quarter because of the combination of our early leadership in advanced AI, our deep ecosystem partnerships –with both established leaders and emerging players, and our decades of investments to be both deep in tech and relevant across the entire enterprise from the back office to core operations, to the front office.

We play a critical role in the AI-ecosystem. Foundation models provide the "intelligence"; and our role is helping clients understand what to deploy and when, how to integrate it into their systems, reimagine their processes, modernize their data and digital core, help redesign their operating models and do effective change management, and help build the capabilities and talent needed to scale AI across the enterprise. As the technology changes even more quickly, our clients are turning to us to help them navigate. They also want us to help them go faster—sometimes by building their capabilities and other times by leveraging ours.

Take SaaS implementations overall. Clients are continuing to modernize their tech stacks with SaaS, but they are now asking that new SaaS implementations be designed from day one to use processes that integrate both AI from the SaaS provider and other providers; and clients are more and more willing to do end-to-end transformation, all of which requires leadership in AI and SaaS, but it also requires deep industry and functional knowledge, and the ability to work across the enterprise not just in certain functions. They look to us to bring our point of view and experience on what the new tech stack should be as well as on how their processes should change due to AI.

We are seeing this across industries and across functions…

For example, in retail, service is no longer just about fixing problems, customers expect a consistent experience every time, even on a massive scale.

We're working with retailers to reinvent contact centers and design the new processes with agentic AI. This means partnering with us to develop agentic enterprise strategies and architecture foundations, which will serve as the platform to enable agentic solutions. We aren't simply upgrading contact center technology, we're reimagining service at scale. The future workflow involves digital agents and human agents operating as one coordinated team to serve customers. We are starting to bring together the best of major technology ecosystems from day one, such as a SaaS player and a hyperscaler, and creating agents that work across both platforms, creating leading-edge, customized solutions. This simplifies work for employees, delivers faster and more personalized support for customers, and creates a service engine designed to scale efficiently as the business grows.

Our combination of strengths is helping us meet the needs of our clients today. And AI is opening up new opportunities where these strengths position us for growth in the long term. We see a long funnel of work, as we have the advantage of the biggest client base in our industry, all of which will need to reinvent.

Let's look at ERP. We have been the number one partner to all the major ERP ecosystem partners for years, and over the last several years, we deployed modern ERP systems across hundreds of clients. When those systems were implemented, advanced AI did not yet exist. Now those clients want to embed the new AI and data capabilities and transform their end-to-end processes.

For example, with one of our largest Oil and Gas clients, we are seeing a clear pattern. First, they modernized their digital core. Over several years, we partnered on a major ERP transformation to implement a cloud-based platform that simplifies operations, standardizes processes, and creates a single source of data across the enterprise. It was a significant, multi-year investment. Now, with that foundation in place, they are investing again—embedding AI directly into the systems that run the business. This is not a separate layer of technology: it is intelligence built into core workflows—across finance, supply chain, asset maintenance, and field operations. These capabilities analyze large volumes of data, initiate routine actions, and support better decisions in real time. The impact is tangible: faster cycle times, fewer manual steps, lower operating costs, and stronger operational resilience. We are beginning to see this same sequence more broadly—modernization of the core, followed by AI-driven enhancement. Enterprise systems are becoming the platform that allows AI to deliver value at scale.

Because of the work required across every process in every industry, we are starting with early leaders who have advanced technology stacks and want to pioneer. We believe that over the next 12 months or so, this opportunity will gain momentum.

AI is helping us grow another strong business—cybersecurity. We see advanced AI as a catalyst to our cybersecurity business, as the threat landscape expands, and new tools emerge to protect and attack.

AI is also unlocking opportunities in technology modernization, one of our key strengths…

For example, for decades, parts of the technology stack, like the mainframe, have been considered too complex or too costly to modernize. Today, advanced AI, and new hardware capabilities, are making mainframe modernization feasible, which we believe will open this major services market.

We are also seeing significant opportunities in core operations, where AI is enabling us to make today's impossible, possible. This is one of the reasons why our custom systems integration work has been having a renaissance and is showing strong momentum. Core operations are where generally there are not as many SaaS providers because the needs are complex and industry specific. These are areas where a lot of digitizing still needs to happen, like moving to the cloud and building data foundations, but where advanced AI is going to be able to provide solutions that are not available to clients today or are too expensive. Examples include finance and risk such as Know Your Customer in Banking, claims in insurance, prior authorization in healthcare, and manufacturing, to name just a few.

Advanced AI also is opening entirely new areas of growth for us because it is creating new opportunities for our clients and because making AI work requires entirely new capabilities.

Take customer engagement…

In Accenture Song, LLMs are driving the biggest revolution in retail since the advent of social media. While it is still very early, conversational and agentic commerce are changing how customers discover, evaluate and purchase products. We are seeing strong demand, and we are uniquely positioned to serve our clients because of our ecosystem relationships and expertise in marketing, sales and service.

Radisson Hotel Group, a global hospitality company, is a clear example of marketing and commerce reinvention. Over the past several years, we modernized their digital and data foundation—uniting brands on a single global platform. This created a real-time 360-degree customer view to enable personalized marketing across more than

1,500 hotels in over 30 languages and markets. Now, we're putting agentic AI at the center of how demand is created and converted with Accenture Media Console where AI agents optimize content based on traveler intent, streamline campaigns, and dynamically allocate budgets. We're also helping Radisson adapt to how discovery is evolving with agentic commerce—connecting live inventory and rates directly into conversational LLM platforms so travelers can move seamlessly from discovery to booking within AI driven journeys. Since our collaboration began, Radisson's share of direct bookings has tripled. This isn't incremental marketing improvement. It's AI driven commerce—and it shows how each wave of technology reshapes industries like travel, opening new growth opportunities for our clients and, therefore, for Accenture.

Our clients are turning to us to help them build and provide the capabilities to use AI across the enterprise.

For example, at one of our large clients, we are working with a leading large language model provider to embed advanced models directly into how the company's IT team delivers their projects. Those models are accelerating software work across the board—from new development to upgrades— and some projects are already seeing delivery move 50% faster. Beyond engineering, the same models are automating complex documents, enabling real-time reporting, and powering AI agents embedded directly into day-to-day business processes. And for developers, a next generation, agentic coding platform is changing how work gets done, with teams building their own tools and AI agents at scale. This is what reinvention looks like: AI becoming central to how work is designed, delivered, and run.

We also have entirely new offerings, such as setting up dedicated AI services to either be their main execution arm, sometimes in a build operate transfer model, or to be like a factory augmenting a client's core AI team.

This quarter, Piraeus Bank S.A., a major bank in Greece, partnered with us to set up a central AI hub to be their primary execution arm, with an option to transfer it to them in the future. They are leveraging our strong capabilities to help them more quickly capture value from AI and navigate the complex ecosystem environment.

Before I turn it over to Angie….

I want to step back and give you our perspective on the future. AI, as it stands right now, may turn out to be the most powerful technology breakthrough since electricity. We cannot even today describe all the ways in which we will use this technology, let alone the opportunities to come. But the one thing we know, is that the only way to realize the power of this technology is if companies can change dramatically to use it, and through every prior technology evolution in the last five decades, one constant has been that companies have turned to Accenture to help them make these big changes, and that is why I'm so confident in our future.

Over to you, Angie.

Angie Park

Thanks, Julie.

Before I get into our business outlook, I want to share how the conflict in the Middle East is affecting our business and how we are reflecting it in our guidance.

First, we have roughly 3,000 colleagues in the Middle East, a region which represented about 1% or $1 billion of revenue in FY25. Our colleagues are safe, and we are providing them with all the support we can.

Currently we are not seeing any significant financial impact. While we know the environment is more uncertain given the conflict, we always call it like we see it. And based upon the information we have today, we are increasing key elements of our full year guidance. Our range for Q3 and the full year reflect our best view today of the potential impact of the conflict in H2. It does not take into account a significant escalation or the occurrence of major economic disruption.

Now let me turn to our business outlook…

For the third quarter of fiscal 26, we expect revenues to be in the range of $18.35 to $19.0 billion. This assumes the impact of FX will be approximately positive 2.5% compared to the third quarter of fiscal 25. Our Q3 guidance reflects an estimated 1% to 5% growth in local currency, including about a 1% impact from our federal business. Excluding the impact of federal, our revenue is expected to be an estimated 2% to 6%.

For the full fiscal year 26…

Based upon how the rates have been trending over the last few weeks, we continue to assume the impact of FX on our results in U.S. dollars will be approximately positive 2% compared to fiscal 25.

For the full fiscal 26, we now expect revenue to be in the range of 3% to 5% growth in local currency over fiscal 25, including an estimated 1% impact from our federal business. Excluding the impact of federal, our revenue is expected to be an estimated 4% to 6%.

This year, we continue to expect an inorganic contribution of about 1.5%. We have a strong pipeline of opportunities and now expect to invest about $5 billion in acquisitions this fiscal year but, as Julie said, we could do more if the opportunities present themselves.

For adjusted operating margin, we continue to expect fiscal year 26 to be 15.7% to 15.9%, a 10 to 30 basis-point expansion over adjusted fiscal 25 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 23.6% in fiscal 25.

We now expect our full-year adjusted diluted earnings per share for fiscal 26 to be in the range of $13.65 to $13.90, or 6% to 8% growth over adjusted fiscal 25 results.

For the full fiscal 26, we now expect operating cash flow to be in the range of $11.5 to $12.2 billion, property and equipment additions to now be approximately $700 million.

We are raising our free cash flow guidance by $1 billion and now expect free cash flow to be in the range of $10.8 to $11.5 billion. Our free cash flow guidance reflects a very strong free cash flow to net income ratio of 1.3.

We continue to expect to return at least $9.3 billion through dividends and share repurchases, an increase of $1 billion, or 12% from fiscal 25, as we remain committed to returning a substantial portion of our cash generated to our shareholders. Our Board of Directors declared a quarterly cash dividend of $1.63 per share to be paid on May 15, a 10% increase over last year.

As we move into the second half of the year, we remain focused on executing our strategy, investing for the future, and managing our business with rigor and discipline.

With that, let’s open it up so that we can take your questions.

Alexia –

Alexia Quadrani

Thanks, Angie.

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

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

QUESTIONS AND ANSWERS

Jason Kupferberg, Wells Fargo

Good morning, guys. Thanks for taking the question. Definitely appreciate all the AI-related commentary, the client examples. What kind of quantitative evidence should investors be looking at to help substantiate the view that Accenture is a net beneficiary of AI.

Julie Sweet

Thanks, Jason. I would just start with that at this point in our business, AI is permeating everything we do because it either is driving why clients are actually doing things like moving to the cloud.

But when we're doing something that isn't specific AI, they're looking at our AI credentials because everything is aimed to get to AI. And then of course, we have direct AI and then our managed services business is being evaluated by how good our platforms are and their expectations of building AI. And so like to start with, like your first kind of way of looking at is, how is our business performing relative to everyone else and are we taking market share, right? That is the -- because at this point, it's not isolated, right?

It really is why we're winning and it's -- you have to have it to win -- you have to be leader to win at the levels we're winning of like $22 billion. And then we're going to give you metrics, Jason, over time that will change to kind of tell you. And so today, we look at market share, we look at our overall growth. And then the metrics we're giving you are the ones we're using, which is because everything is so tied to the big ecosystem, is our growth with that ecosystem outpacing overall growth? And then how are we doing with the emerging players?

And then we are looking at how many companies are initiating AI with us among our client base, which are the metrics we gave you today. So the metrics will change, right, but they'll reflect what we're looking at as we drive our business.

Jason Kupferberg, Wells Fargo

Understood, understood. And maybe just one on the numbers. I mean the consulting bookings growth has been accelerating in the past few quarters. And then just looking at the modestly upsized revenue outlook for the year. I mean, even if you only deliver the middle of the Q3 range in constant currency, I think you'll be at 4% year-to-date. You've obviously got the easier compare in the fourth quarter when you lap the US Federal headwind. So, any reason to not think the upper part of the full year 3% to

5% range is a pretty plausible outcome? I mean, unless, obviously, if there's some major economic disruption from the Middle East.

Angie Park

Hi, Jason. The 3% to 5% guide for the full year, which is really 4% to 6% excluding Federal, is our best view based upon what we see today. We had bookings that were really, really strong at $22 billion, which were actually a record for us this quarter and it's our third consecutive quarter of $20 billion of bookings or more. And so for us, our guided range, we do aim for the top. We'll see how things play out, but it's our best view. And you're right, we will anniversary AFS in the fourth quarter, the headwind from that, and we expect that to grow in the fourth quarter.

Tien-Tsin Huang, JPMorgan

Thank you. Nice results here, especially on the free cash flow. I'll also ask on AI, if that's okay. Julie, appreciate your comments there on why it's a tailwind. But I was just thinking with these frontier models that are improving so quickly, it's driving a lot of news flow and a lot of debate. And are you seeing any correlation? Are you tracking this how these models and how they're improving and their capabilities improving and how that might impact your bookings growth and conversion to revenue? I'm just trying to understand if there's some kind of correlation or pattern and how that might impact your numbers here going forward as the frontier models improve.

Julie Sweet

Thanks, Tien-tsin. It's a great question and I think it goes to the heart of kind of what's different with models versus when you release functionality in a packaged solution as we've seen in the past, right, is the models are basically just a super powerful engine. So if you think about the car, right, you've got this great engine, only if it's connected to everything, if it has wheels, so you can actually make it run and the transmission to guard it. And so, when the models come out, there isn't a direct correlation to bookings or new work. But what it does is create the next opportunity for us to look at what are the solutions that it's going to now create.

And so if you think about in earlier days, a lot of the work was focused on things like summarization and content creation, the better the models are, it's able to fuel things like moving into agentic -- where you -- and we're starting to see that. So we're starting to see more experimentation and use of agents really basic workflows as the models get better. So think of the release of the models as the beginning of creating new opportunities for us to take to our clients, even as a lot of work that we're doing based on everything that has already happened. Does that help?

Tien-Tsin Huang, JPMorgan

No, it really helps. I like the analogy and it's insightful. So, thanks for that. Maybe as my follow-up, just I get this question a lot, Julie and Angie. Just thinking about the large deals here, you've won a lot and that trend continues. But with respect to AI, how would you characterize the mix of advanced AI work between growth or revenue-generating use cases against the efficiency-led use cases? We hear a little bit of a pickup on the growth side, but love to hear what you're seeing on-the-ground there on the mix shift.

Julie Sweet

Yeah. So I think the first shift that's happening is the focus. It is not yet in the mix. So, our latest survey that we do every quarter of the C-suite and how their view of AI, the latest survey had 78% now saying we think growth is going to be the biggest value. That's not yet translating on-the-ground to being the biggest driver, mostly because of where the technology is. If you think about kind of the early days, a lot of it is about content, summarization, et cetera, that is really an efficiency play. And as the capabilities improve, you start to see more ability to take it into the core business and to do more complex work. So we are absolutely seeing an uptick in growth --growth-focused AI programs, but efficiency is still leading the way.

I will tell you that the most exciting area right now on growth is conversational and agentic commerce. Demand is surging there. And I think as that -- and that's where we're investing a lot, I think as that takes off, you're going to start to see real results from on the growth side from these new developments and that's a whole new market and it's a whole new opportunity for us that we're super well positioned, of course, because of Song.

Tien-Tsin Huang, JPMorgan

Perfect. Thank you.

Julie Sweet

Thank you.

Kevin McVeigh, UBS

Great. Thanks so much and congratulations on the results. If I heard right, it sounds like the acquisitions for -- will be upwards of $5 billion. I think that was from $3 billion last quarter. Is that right? And then, it doesn't seem like it's translating to the inorganic growth. So, is that just the timing or the contribution from the inorganic? Is that just the timing of when they -- when those acquisitions come in?

Angie Park

Hi, Kevin, that's exactly right. So, we currently see $5 billion and have the potential to do more based upon the opportunities that are become available. In terms of the inorganic contribution, we still expect about 1.5% and that really is on timing.

Kevin McVeigh, UBS

That's terrific. And then just the expanding AI -- the expanding bookings with the newer partners you have, is there any way to think about how that is relative to kind of the existing pool and how that scales over time because it seems like they're on pace to double, which is terrific. Just any way to dimensionalize that? And I guess the new ones, I mean with Anthropic, Databricks and NVIDIA, so on and so forth.

Julie Sweet

In terms of dimensionalizing it, what we're seeing is that, really across the board, we've got really strong growth both with our large ecosystem partners and with the emerging partners. And the way to think about that is that the -- as the model -- in a little bit when I was talking about earlier, as the models are improving--the kind of ability to deploy them in the enterprise expands, right? So, think about we're now doing work like in Know Your Customer in the KYC area in banking because you don't have great package solutions of software there. As the models get better, it solves some of the problems that are there. You're seeing in things like the mainframe is the models are helping us do the really not fun dirty work of converting code, we are now able to kind of open up that market where clients are now going to be more willing to touch the mainframe.

So I would really think about both the large ecosystem partners and the emerging partners together because all of these solutions are really working across the ecosystem.

Darrin Peller, Wolfe Research

All right. Thanks. Hey, Julie and Angie. Can you just touch on your headcount growth expectations and maybe just higher level, your headcount strategy. Has there been any change in linearity that maybe you're seeing, particularly related to AI, but more broadly in the environment right now would be great.

Angie Park

Hi, Darrin, good morning. And so for us, headcount, we expect our headcount to increase in the second quarter based upon the demand that we see. And really this is a continuation of the talent rotation that we discussed at the beginning of the fiscal year, and we expect our headcount to -- we expect to add headcount in the second quarter -- in the second half.

Darrin Peller, Wolfe Research

Okay. And guys, just when we think about linearity and how that's trending given AI and implementation for either your own use cases or customers. I'm just curious if it's impacting the strategy going forward?

Julie Sweet

By linearity, if you mean the sort of revenue and headcount, I just would remind you that we really have not had a linear relationship since around 2015 when RPA, when automation really came in. And so we would expect to continue to see that, a disconnecting, and that's what's baked into our guidance.

Darrin Peller, Wolfe Research

Okay. All right. Thanks. Just one more quick one is on visibility. Just sitting where we are today versus perhaps this time last year, how do you think about your visibility and confidence in the remainder of this year and even the next 12 months, just given all the conversations, are there any more uncertainties in clients now given AI or anything else for that matter that geopolitics, et cetera? Thanks again.

Julie Sweet

Well, what I would just say is that obviously there's a lot of uncertainty right now in the environment, which we're not baking into our guidance. But our guidance reflects our confidence in what we are seeing at the account and we haven't seen at our clients and we haven't seen anything yet being impacted by the war. But obviously, there is a big uncertainty because of the war, but we're very confident based on the information we have right now on what we see for the next two quarters.

Angie Park

And that's why we were able to bring the bottom up of our guide and what we see is the large deals layering in. And the second is the anniversary of AFS. So we have visibility to that.

Darrin Peller, Wolfe Research

Okay. Okay. Thanks, Julie. Thanks, Angie.

Julie Sweet

Thanks.

Bryan Bergin, TD Cowen

Hi, good morning. Thank you. I wanted to ask about some of the emerging and I guess, evolving delivery models. So, as we think about AI increasingly in the future, to what extent does the broader GSI and tech consulting model need to pivot to an FDE model, you had an interesting announcement yesterday with Microsoft. Just curious, like if we fast forward a few years, is the majority of tech service implementation likely to be in an FDE model or just more so a mix? And near term, any important financial considerations as you lean into this model with partners?

Julie Sweet

Thanks. What I would say is it will definitely be a mix and that's because the way that the FDE model today really gives value is when you are going in and solving problems that haven't been solved, typically in mission critical areas where in order to get the AI to work and these are usually like bespoke problems at least initially. You have to have deep domain knowledge from the client, the technology knowledge and then what we bring to the table, right, the experience, the integration, the industry and functional knowledge and you work in teams to solve new problems.

And then the idea from there, of course, is that we will then replicate that over time at other clients. And so, there's more-and-more agility in how we're delivering, but the actual kind of thing that people call FDE models is really about solving those problems. We do think that delivery overall, it is changing. We're already using both more technology, but also being able to like kind of use more of these teams that have all of those functions, industry, technology, functional expertise.

And so we do think that the way we bring our teams together will change and some of that will be more for -- more upfront and like an FDE model. But what we are really differentiating in the market right now is that we have all of those skills at Accenture and that's helping us win more.

Bryan Bergin, TD Cowen

Okay, that's helpful. And then on free cash flow, so you've got the strong generation here trailing 12 months up almost 30%. Can you comment on what you're doing differently here in working capital or something tax related that's allowing for that and obviously the raise for the year aside from lower CapEx? And, is it sustainable as we think about future free-cash flow conversion?

Angie Park

Thanks, Bryan. Our free cash flow, we just recorded record free-cash flow in -- on a year-to-date basis of $5.2 billion and that is really driven by efficiencies in our operations as well as DSO. Our DSO was roughly about five days below last quarter and it was two days better than the same time last year. That is just us continuing to focus on getting cash and operating more efficiently. So, our raise this quarter for the full year we were really pleased with, and it's a strong result at a free cash flow to net income ratio of 1.3.

Bryan Bergin, TD Cowen

Thank you.

Jonathan Lee, Guggenheim Partners

Great. Thanks for taking our questions. Julie, I want to build on a prior question around V&A. Can you help us understand what's driving the step-up in deployment and whether this reflects a shift in acquisition strategy toward larger or earlier-stage assets, higher multiples in the market or perhaps a pivot toward IP-led deals?

Julie Sweet

Sure. Well, I'll let Angie just talk about kind of how we're seeing valuations in a moment, but I want to talk a little bit just about to your point about what the strategy is. So, our strategy that we've executed over the last decade or so has been to use V&A often to go into new areas that are higher growth. So, we did that with Accenture Song. We've done that with Industry X, you saw us do that with capital projects over the last few years. And that is all to fuel organic growth, right? So, it's increasing our total addressable market by going into new higher growth areas. And that's again what you're seeing us do that.

And we're doing that in key AI enablers. And so those are things like data centers, energy infrastructure. We're doing that in big secular trends like defense. You've seen those acquisitions over the last couple of years and public sector is another one. Education is another one. So, higher growth areas, increasing our TAM. And then increasingly, we see an opportunity to meet unmet demand in the market where you don't have solutions where we can build products either organically or by purchasing them.

So, our Faculty acquisition, for example, has a really unique decision intelligence product. And then in addition, there are new commercial models where data is one of the key enablers of AI. And so you saw our Ookla acquisition, which is really about an incredible data set. And the way that then gets into our business is in the network is really core to both communications and all enterprises and to use AI, having this kind of a dataset is incredibly powerful and it's a completely different commercial model, a licensing and subscription base.

And so, we're also using our balance sheet to get into these exciting new areas that also bring us new commercial models that are not linked to FTE. And that will then mean we kind of have a different mix in terms of the financial profile and valuations and will just give a quick update on how to think about that.

Angie Park

Yeah. And so, in some cases, we are paying higher multiples than in the past. So the immediate uplift is lower in those instances than prior acquisitions. So that said, we are intentionally shifting towards higher growth, higher margin assets that are going to fuel organic growth and strengthen our capabilities, and it's really to position us for long-term growth and returns.

Jonathan Lee, Guggenheim Partners

Thank you for color on the strategic pivot there. As a follow-up, one of your partners recently highlighted the ability to reduce SAP ERP migration workloads to as little as two weeks using AI, how do you respond to concerns that AI tools are compressing project timelines, relative rate cards, and reducing the TAM for systems integration work? And are you seeing similar compression in your own engagements? And if so, how are you offsetting this through volume or new service offerings?

Julie Sweet

So, in general, you should think about our strategy is always that the more that we can use technology to bring more value to clients faster, the better it is for our business. And that's the strategy you've seen us execute ever since RPA really burst on the scene in 2015, because when you can actually make, especially the technical piece of it go faster, there's so much work, all the process change, all the change management, et cetera, that like the SAP deals are multi-year and those often become gating items that they're not investing in other parts of the technology landscape or other parts of the business because they are these huge projects.

And so, we see this as whether it's in ERP or mainframe, it helps, because the actual technical piece is a small piece compared to the rest of the work and it leads to more work. And so, for example, just last week, we were at AIPCon Palantir's conference with SAP, Palantir and Accenture on stage saying we're going to develop those products. They're really not developed yet at scale in any way. But we're working together because it will be a net benefit to our clients, which means it will be a net benefit to us. That's how we think about it.

Sean Kennedy, Mizuho

Hi, good morning. Thanks for taking my question. So, one of the themes across the sector currently is higher margin AI-services offsetting more competitive pricing in legacy services. So, I was wondering if Accenture is seeing similar trends helping with gross margin and also how much of a productivity boost is Accenture seeing internally from these AI programs?

Angie Park

Hi, Sean, good morning. So let me just start with pricing. For us, this quarter, we -- pricing, which is the margin on the work that we sell, we saw improvements in some areas of our business and we continue to operate in a highly competitive environment.

Julie Sweet

Yeah. Internally, right, we think about applying AI in our delivery where we're continuing to improve our efficiencies in delivery, which has also helped fueling our growth. And then in how we operate Accenture, we're deploying all the services we give to clients to us. We're often the experimentation place as well, and we're really pleased and you can see that being reflected in the efficiencies we're getting that are reflected in ROI.

Alexia Quadrani

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

David Koning, Baird

Yeah. Hey guys, thank you. It seems like you're doing very well with big clients, 41 with $100 million-plus in quarterly bookings this quarter. That's been in the low-30s. So that number is up 20%-plus. Do you think big clients, the big -- the huge companies that we all know well, are early to spend on AI and big transformational projects and the more mid-sized companies are kind of a little more of a wait-and-see mode and actually you might be at the front end of a big swell of those picking up after the big clients are starting to spend on this? Just interested in your thoughts there.

Julie Sweet

Yeah. It's a great question. I don't see it developing quite that way because actually some of the smaller companies are spending a fair amount, like that's where there's a lot of growth and it's one of the reasons we're focusing even more on the mid-market and made a few acquisitions there to fuel that organic growth. The way I would think about the $100 million bookings or more and is that in the large enterprises is -- it just is a reflection of just how much reinvention they have to do and that AI is the catalyst for that and they have big estates that have to be modernized, a lot of change.

And so those -- that's really kind of a reflection more of how much they have to do. And at the same time, I believe we are early in what will be a -- like a large funnel of work because in both the big enterprises and the small enterprises, just think about -- I talked a little bit about this in the script, like everybody who's put in modern ERP in the last few years and we're the number one partner there, none of -- no advanced AI was possible there, right? So, like that's a whole wave of work that has to get started, right? And then we're beginning to see early momentum on, right?

And that's not even then we've done very little still in core operations because the advanced AI isn't quite there, like physical AI is going to be coming, agentic AI is still early. So ,we just see a lot of work, but the technology has got to get to the right level and, of course, factors like the macro feed into that. So, we're really excited about the long term because there's so much more value the clients are going to get from AI. And we're demonstrating every quarter that we're the one that they're coming to us for it. So thank you for the question.

David Koning, Baird

Yeah, thanks. And just a quick follow up. I think Angie said Federal spending would be up year-over-year again in fiscal Q4 and just wondering into next year, does that normalize that back to the higher level that it's been into next year?

Angie Park

Hi, David. We'll give you an update in September on that, but we feel really good about the fact that we are anniversarying the headwind and we're getting back to growth in fourth quarter with our Federal business.

Julie Sweet

Go Federal.

CONCLUSION

Julie Sweet

All right. Thanks, everyone. I just want to thank all our shareholders for your continued trust and support and all of our reinventors around the world that every day are delivering incredible value. So thanks for joining and we'll talk to you next quarter.

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