Accenture

4th Quarter Fiscal 2018 Conference Call

Conference Call Transcript

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CORPORATE PARTICIPANTS

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Pierre Nanterme – *Chairman and Chief Executive Officer*

David Rowland – *Chief Financial Officer*

PRESENTATION

Angie Park
Thank you, operator, and thanks everyone for joining us today on our fourth-quarter and full-year fiscal 2018 earnings announcement. As the operator just mentioned, I'm Angie Park, Managing Director, Head of Investor Relations.

On today's call you will hear from Pierre Nanterme, our Chairman and Chief Executive Officer, and David Rowland, 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. Pierre will begin with an overview of our results. David will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for both the fourth quarter and the full fiscal year. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the first quarter and full fiscal year 2019. We will then take your questions, before Pierre provides a wrap up at the end of the call.

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

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

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

Now, let me turn the call over to Pierre.

Pierre Nanterme
Thank you, Angie, and thanks everyone for joining us today.

We are extremely pleased with our outstanding financial results for both the fourth quarter and the full fiscal year.

For the year, we continued to strengthen our leadership position in the New – digital, cloud and security services. We gained significant market share, growing about three times the market, with strong growth in nearly all of our largest markets once again. And we returned very substantial cash to our shareholders.

Here are a few highlights for the year:

- We delivered record new bookings of $42.8 billion.

- We generated revenues of $39.6 billion – another record – and up 10.5% in local currency. I am especially pleased with our balanced growth once again across the dimensions of our business.

- We delivered record earnings per share of $6.74 on an adjusted basis, a 14% increase.

- Operating margin was 14.8%, consistent with last year on an adjusted basis.

- We generated outstanding free cash flow of $5.4 billion.

- We returned $4.3 billion in cash to shareholders through share repurchases and dividends.

- And we just announced a semi-annual cash dividend of $1.46 per share, a 10% increase over our prior dividend.

So, we delivered an excellent year in fiscal year 18, and I feel very good about our business, the durability of our performance and the strong momentum we have as we enter the new fiscal year.

Now, let me hand over to David, who will review the numbers in greater detail. David, over to you.

David Rowland
Thank you, Pierre – and thanks to all of you for taking the time to join us on today's call.

By any measure, our fourth quarter results capped off what has been another truly outstanding year for Accenture. These results are underpinned by our ability to manage our business with rigor and discipline, while leveraging the full power of Accenture's unique leadership position in the marketplace to drive significant value for our clients, our people and our shareholders.

Before I get into the details of the quarter, let me summarize a few of the important highlights – which once again reflect strong execution across all three financial imperatives for driving superior shareholder value.

Revenue momentum continued with very strong net revenue growth of 11% in local currency, reflecting our fourth consecutive quarter of double-digit growth. Our growth continued to significantly outpace the market reflecting both our leadership position in the New and the durability of our diverse, yet highly focused growth model.

Our operating margin of 14.3% came in as expected and was up 10 basis points from last year. We were very pleased with our strong underlying profitability which allowed us to invest significantly in our business and our people. And, we delivered EPS of $1.58 in the fourth quarter, up 7% from last year.

And finally, we delivered free cash flow of $1.9 billion, which was better than expected driven by strong growth in profitability and continued industry-leading DSOs.

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

New Bookings were $10.8 billion for the quarter, reflecting our second-highest bookings on record. Consulting bookings were $6.1 billion, representing an all-time high and a book-to-bill of 1.1. And Outsourcing bookings were $4.7 billion, with a book-to-bill of 1.0.

The dominant theme continued to be strong demand for the New which represented more than 60% of our total new bookings.

For the full fiscal year, we delivered nearly $43 billion in new bookings, which represents 12% growth in local currency. We were particularly pleased with our double-digit bookings growth in Strategy & Consulting and Systems Integration.

Turning now to revenues…
net revenues for the quarter were $10.1 billion, an 11% increase in both USD and local currency. This result was $100 million above the top end of our guided range.

Consulting revenues for the quarter were $5.5 billion – up 12% in both USD and local currency. And our Outsourcing revenues were $4.6 billion – up 9% in both USD and local currency.

Looking at the trends in estimated revenue growth across our business dimensions – we were especially pleased with the strong balance in our growth – with double-digit growth across all dimensions: Strategy and Consulting Services, Operations, and Application Services. And, the New, including digital, cloud and security-related services, continued to deliver very strong double-digit growth.

Consistent with last quarter, I'd also like to highlight continued strong demand for Intelligent Platform Services which was an important contributor to our growth. These services primarily relate to deploying next-generation technologies in SAP, Microsoft, Oracle, Salesforce and Workday.

Taking a closer look at our Operating Groups…

Resources led all operating groups with 20% growth in local currency, reflecting double-digit growth across all three industries and all three geographies.

Communications, Media & Technology grew 15% driven by continued strong momentum in Software & Platforms which posted very strong double-digit growth, especially in North America.

Products delivered its 13th consecutive quarter of double-digit growth with 12% growth in the quarter. We saw strong broad-based growth across all three industries and all three geographies.

H&PS grew 6% driven by strong growth in Public Service as well as double-digit growth in both Europe and the Growth Markets. We saw flat growth in North America primarily reflecting some pressure in our US Federal business.

Finally, Financial Services grew 3%, reflecting good growth in Insurance and modest growth in Banking & Capital Markets. We saw double-digit growth in the Growth Markets and solid growth in North America, offset by some challenges in Europe. We expect a similar level of growth in the first quarter.

Moving down the income statement… gross margin for the quarter was 31.8%, compared to 31.5% in the same period last year. Sales and marketing expense for the quarter was 10.7% compared with 11.0% for the fourth quarter last year. General and administrative expense was 6.7% compared to 6.4% for the same quarter last year.

Operating Income was $1.5 billion in the fourth quarter, reflecting a 14.3% operating margin, up 10 basis points compared with Q4 last year. Our effective tax rate for the quarter was 28.0%, compared with an effective tax rate of 23.9% for the fourth quarter last year. The higher tax rate in the fourth quarter was primarily related to an increase in prior-year tax liabilities.

Diluted earnings per share were $1.58, compared with EPS of $1.48 in the fourth quarter last year. This reflects a 7% year-over-year increase.

Days Services Outstanding were 39 days, consistent with last quarter and the fourth quarter of last year. Our free cash flow for the quarter was $1.9 billion, resulting from cash generated by operating activities of $2.1 billion, net of property and equipment additions of $179 million.

Our cash balance at August 31st was $5.1 billion, compared with $4.1 billion at August 31st last year.

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

In the fourth quarter, we repurchased or redeemed 3.4 million shares for $552 million, at an average price of $163.24 per share. This week, our Board of Directors approved $5.0 billion of additional share repurchase authority, bringing the total to $6.0 billion.

As Pierre mentioned, our Board of Directors declared a semi-annual cash dividend of $1.46 cents per share. This dividend will be paid on November 15th and represents a 13 cent per share, or 10%, increase over the previous semi-annual dividend we declared in March.

So, before I turn it back over to Pierre, I want to reflect on where we landed for the full year across the key elements of our original business outlook provided last September.
As a reminder, we had two unusual items impacting metrics for this year. Last year, we recorded a settlement charge related to the termination of our U.S. pension plan. And, this year, we recorded charges related to tax law changes. The following comparisons exclude these impacts where applicable and reflect adjusted results.

For the full year, net revenues grew 10.5% in local currency, well above the top end of the guided range that we provided at the beginning of the year, with strong growth across all areas of our business, with many posting double-digit growth. Roughly 80% of our overall growth was attributed to strong organic growth of 8%. And, the New represented approximately 60% of revenues for the year, reflecting our strategic focus to be a market leader in digital, cloud, and security-related services.

On an adjusted basis, operating margin of 14.8% was consistent with FY17 and in line with our updated guidance, while slightly below our original guided range. As I mentioned earlier, we are pleased with the continued underlying margin improvement that has allowed us to continue to invest for long-term market leadership.

On an adjusted basis, diluted earnings per share was $6.74 per share – reflecting 14% growth over FY17 – and was above the original guided range primarily driven by our strong top-line growth.

Our free cash flow of $5.4 billion was well above our original guided range, again reflecting strong operating discipline and industry-leading DSOs.

And, finally, we delivered on the objectives of our capital allocation model by returning $4.3 billion of cash to shareholders while investing roughly $660 million to acquire critical skills and capabilities in strategic, high-growth areas of the market.

So again, we had another outstanding year of broad-based growth resulting in significant market share gains – underpinned by strong profitability and cash flow.

Now let me turn it back to Pierre.

Pierre Nanterme
Thank you, David.

Our outstanding results for fiscal year ’18 demonstrate that we continue to execute our profitable growth strategy of differentiation and competitiveness extremely well.

Our very strong revenues and new bookings reflect excellent demand for our services. We are clearly leading in the New in the marketplace and we have gained significant market share over the last few years, demonstrating that our services and capabilities are highly relevant to our clients’ agendas.

Over the last five fiscal years, we have delivered compound annual revenue growth of 9% in local currency, and 10% compound growth in adjusted earnings per share.

And I am especially pleased that over this same period we have delivered a compound annual total return to shareholders of 21%, significantly above the 15% annual total return for the S&P 500.

Our strong and durable performance reflects the relevant investments we have made – ahead of the curve – to differentiate our offerings and enhance our competitiveness, as well as the rigor and discipline we bring to managing the business.

Our rapid rotation to the New – digital, cloud and security-related services – has contributed significantly to our performance. In fiscal ’18, the New accounted for about $23 billion or approximately 60% of total revenues – more than double the revenues just three years ago.

In Digital, I am especially pleased with the success we have had in growing Accenture Interactive. Today, we are the market leader operating at scale for many of the world’s leading brands.

We are working with Radisson Hotel Group as their global experience agency to improve customer acquisition and retention for more than 1,000 hotels in 80 countries. Accenture Interactive is leveraging our travel industry expertise, data analytics and digital marketing capabilities to create more personalized customer experiences.

While the New has truly become core to our business, as you would expect we continue to invest and innovate to capture new waves of growth.

And indeed, we are making excellent progress with Accenture Industry X.0, which we launched recently – where we are helping clients reinvent manufacturing with advanced technologies like the Internet of Things, connected devices and digital platforms.

With ABB, the Swiss industrial manufacturer, we developed an IoT solution to connect data from “smart sensors” embedded in its electric motors to customers. With a new mobile app, portal and sensor platform, ABB can now apply more advanced analytics that deepen its knowledge about motor performance, competitor assets and customer needs.

We continue to invest in our Industry X.0 capabilities and completed three acquisitions in the fourth quarter – Pillar Technology, a software firm in Columbus, Ohio … Mindtribe, a hardware engineering company in San Francisco … and designaffairs, a design firm in Germany.

At the same time, we continue to leverage our unique role in the technology ecosystem as the leading partner of key platform players including SAP, Microsoft, Oracle and Salesforce, which are also rotating rapidly to the New. They have evolved to a new generation of cloud-enabled platforms with advanced analytics, artificial intelligence and machine learning capabilities.

We are working with a broad range of clients across industries around the world to transform their businesses using SAP S4/HANA solutions, from Lion, Australia’s largest brewer … to Celsia, the Latin American utility … to Barilla, the Italian food company.

Turning now to the geographic dimension of our business … I’m just very pleased that we delivered another year of very strong, broad-based growth in most of our largest markets.

Starting with North America, I’m delighted with the acceleration in our business – with revenue growth of 9% in local currency for the year, driven primarily by the United States.

In Europe, we continue to drive high single-digit growth. We delivered 9% growth in local currency for the year, led by double-digit growth in Germany, Italy, France and Ireland, as well as high single-digit growth in Spain.

And finally, our Growth Markets are becoming an increasingly significant contributor to our performance, with 16% growth in local currency, led once again by very strong double-digit growth in Japan, as well as double-digit growth in Australia, Brazil and Singapore.

Before I turn it back to David, I want to share a few thoughts on our talent strategy to continue leading in the New – which clearly sets us apart in the marketplace.

Our people ultimately make the difference in delivering high-quality services to our clients. And as we transform Accenture, we are making substantial investments to ensure that we have the most relevant and specialized skills – at scale – to meet our clients' needs.

And we are particularly focused on attracting and developing the best possible team of leaders in our industry. And I am extremely pleased that in fiscal year '18, we promoted about 700 new managing directors and hired nearly 300 from outside Accenture – adding very significant industry expertise and specialization.

At Accenture, we continue to believe that diversity is a critical source of competitive advantage. I am especially proud that just this month we were named the top company – Number 1 – on the Thomson Reuters Diversity & Inclusion Index, which recognizes the 100 most diverse and inclusive companies in the world.

And finally, I want to thank our 459,000 people for their unique passion and energy, which make all the difference for Accenture – and more importantly, for our clients.

With that, I will turn it over to David to provide our business outlook for fiscal '19. David…

David Rowland
Thank you, Pierre.

Before I get into our business outlook, I want to highlight a few changes for FY19 and beyond.

For our fiscal '19, we adopted the new revenue and pension accounting standards and have posted a reconciliation on our IR website. In summary, the adoption does not have a material impact on our financial reporting. However, you'll notice that revenues will now include reimbursements – and as a result, going forward, we will report a single revenue number which will include reimbursements. Also as a result of these changes, there will be a corresponding impact to operating margin, which restated for FY18 would be 14.4% compared to the reported operating margin of 14.8%.

Our FY19 guidance, and comparisons to FY18, reflect the adoption of the new revenue standard, including the change in the presentation of revenues and the resulting impact on operating margin, as well as the updated standards for pension accounting and income taxes on intracompany transfers.

I'd also like to highlight a change we will be making in the payment of our dividends. Beginning in the first quarter of fiscal '20, we will move from a semi-annual dividend payment schedule to a quarterly dividend payment schedule. This change will take effect in FY20, and in FY19 we will continue to pay dividends on a semi-annual basis.

Now let me now turn to our business outlook…

For the first quarter of fiscal ’19, we expect revenues to be in the range of $10.35 - $10.65 billion. This assumes the impact of FX will be about negative 2% compared to the first quarter of fiscal ’18 and reflects an estimated 7% to 10% growth in local currency.

For the full fiscal year ’19… based upon how the rates have been trending over the last few weeks, we currently assume the impact of FX on our results in USD will be about negative 2.5% compared to fiscal ’18.

For the full fiscal ’19, we expect our revenue to be in the range of 5% to 8% growth in local currency over fiscal ’18.

For operating margin, we expect fiscal ’19 to be 14.5% to 14.7%, a 10 to 30 basis-point expansion over adjusted fiscal ’18 results. We expect our annual effective tax rate to be in the range of 23% to 25%, and this compares to an adjusted effective tax rate of 23% in fiscal ’18.

For earnings per share, we expect full-year diluted EPS for fiscal ’19 to be in the range of $6.98 to $7.25, or 4% to 8% growth over adjusted fiscal ’18 results.

For cash flow – for the full fiscal ’19 we expect operating cash flow to be in the range of $5.75 to $6.15 billion, property and equipment additions to be approximately $650 million, and free cash flow to be in the range of $5.1 to $5.5 billion. Our free cash flow guidance reflects a very strong free cash flow range to net income ratio of 1.1 to 1.2.

And finally, we expect to return at least $4.5 billion through dividends and share repurchases as we remain committed to returning a substantial portion of cash to our shareholders.

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

QUESTIONS AND ANSWERS

Angie Park
Thanks, David.

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?

Operator
Thank you. Ladies and gentlemen, if you’d like to ask a question, please press star and then 1 on your touchtone phone. You will hear a tone indicating you have been placed in queue. You may remove yourself from queue at any time by pressing the pound key. If you’re using a speaker phone, please pick up the handset before pressing the numbers. Once again, if you have a question, please press star 1 at this time. And one moment please for your first question.

Your first question comes from the line of Joseph Foresi from Cantor Fitzgerald. Please go ahead.

Joseph Foresi
Hi, I was wondering if you could start off by talking about what the margin drivers look like and how we should think about the base margin exiting this year and how margins will expand next year?

David Rowland
The margin drivers are really consistent with what I've talked about previously, and you can really look at it two ways. I mean, first of all, our profitability fundamentally starts with strong contract profitability, and that gets into the way we price our services and gets into the discipline with which we deliver those services to the expected economics. And so, contract profitability is always high on our profit agenda. And, of course, it can be impacted by a number of things, including the mix of work in a particular quarter or year across the business dimensions. It can also be influenced by the mix of work across geographies. But we're very focused on profitability and, of course, our strategy, which is focused on leading and delivering high-value services to our clients, to be outcome-driven in the work that we perform for our clients and, of course, our focus on leading in the New. All of that supports our objective of expanding our contract profitability over time.

You know the other two things, if you look at it through another lens, would be that our profit drivers are also focused on efficiently managing the evolution of our payroll structure in relation to the evolution of our revenue. And, of course, we have an ongoing focus on that. And then finally, we're always focused on continuing to improve our SG&A structure and the efficiency of the cost of doing business. And all of those things come into our margin expansion objectives for next year.

Joseph Foresi
Got it. And then as my follow-up, just staying with margins, on the M&A side, what's your expectations for contribution to the top line and how do you balance that with your desire to obviously expand margins? Thanks.

David Rowland
Yes, so we expect our inorganic contribution next year to be about 1.5%. That's about a point lower than our experience in FY18. But it's important to reinforce that we are firmly committed to our inorganic strategy, again, using inorganic as an engine of organic growth. This year, we would expect to spend up to $1.5 billion, consistent with our capital allocation strategy. As always, given the right opportunities and the right circumstances, we could certainly spend more than that.

And from a profitability standpoint, all of that is in the mix of how we manage our margin expansion over time. You've heard us say many times that underneath the margin that we report externally, we have underlying margin improvement which I reference from time to time, and our focus as an organization is to get sufficient improvement in our underlying margin, so that we can absorb all of our investments which includes our ambition around acquisitions as part of our growth strategy.

Joseph Foresi
Thank you.

David Rowland
Thank you.

Operator
Your next question comes from the line of Edward Caso from Wells Fargo. Please go ahead.

Edward Caso
Hi, good morning.

David Rowland
Hey, Ed.

Edward Caso
Again, can you talk a little bit on the people side? Your attrition rate was 18% versus 15 a year ago. It seems a lot of your peers are showing rising rates. Can you sort of dig down a little bit on why and maybe what efforts you're trying to maybe slow that down or are you getting more comfortable at this higher level?

Pierre Nanterme
Yes, on attrition, so let me directly answer your question. Are we concerned with the [18%] [corrected], not at all. Let's be clear. I think we are, today, we believe it's a realistic level of attrition given the level of competition for talent in the marketplace. We have today zero issues to hire the talent we need, and it's true everywhere across the world. And so, what is it we do to be attractive. I mean, first, our strategy, the rotation to the New, the fact that we are leading in all these new waves of interactive, manufacturing internet, artificial intelligence, advanced analytics, cloud, blockchain and it is creating a very attractive place to be.

Second, is our performance. We are the leader in the industry and, of course, it's attractive for talent. I was just reading this morning, it's fresh from press. I'm in Paris. We are number one in all the dimensions in professional services, from an industry standpoint, from a technology standpoint and across the board. So we have zero issues being attractive.

And finally, it's our talent strategy and the environment we're providing to our people. I think we worked a lot to create the right workplace. We have people collaborating. We are creating the right environment to have multiple cultures coming together and developing a lot of creative thinking. And it's our tone and style we are developing at Accenture and it's probably a benefit of being the leader.

Edward Caso
My other question, it relates to margins around how much benefit are you getting from platforms that you've built, from reuse? It seems like a lot of the new is starting to settle in here and it seems like there's an opportunity for an industry leader to sort of reprint what you've already done?

Pierre Nanterme
Yeah, I'm jumping on this one, David. I mean for us, platforms are extremely important to the success of Accenture. I think this is very clear, what we're calling now the intelligent platforms, because the platforms provided by our partners, SAP, Microsoft, Oracle, Workday, Salesforce, but I could have Dassault Systemes and others, are becoming more and more intelligent. And our strategy has always been the same. We leverage the best platforms in the marketplace and, this is important, on top of them we build industry-specific specifications. So, for instance, when

we're working with an SAP, we have developed a very specific add-on on their platform in upstream oil and gas.

The same in utilities. We're working with Salesforce.com on a joint company called Vlocity and the objective of Vlocity is at speed, develop industry-specific solutions on top of the Salesforce capabilities. So this is our strategy and it's working so far very well.

Edward Caso
Thank you.

David Rowland
Thank you, Ed.

Operator
Your next question comes from the line of Tien-tsin Huang from JP Morgan. Please go ahead.

David Rowland
Hey, good morning, Tien-tsin.

Tien-tsin Huang
Good morning, congrats on the double-digit growth. I wanted to ask on the revenue momentum. I'm curious to pick your brain on the outlook. Just if we look back a year ago, you ended the year growing 8%, I believe, and you guided to 5% to 8% revenue growth. So this year, you guided to the same 5% to 8%, but you're exiting at 11%, so I'm curious how might the upside case be different this year versus last year? Any considerations across micro demand, competition, digital being a little bit more mature, etc.?

David Rowland
I would say, first of all, there is no doubt that we have strong momentum in the business and there's also no doubt that we feel very good about our business and the momentum that we have. And you could point to, as you mentioned, the fact that we exited '18 with very strong, broad-based organic growth. By the way, our organic growth in quarter four was 10%. We had record bookings in the second half of the year. We had our all-time high in the third quarter. And then the fourth quarter, it was second only to quarter three. And we've got a good line of sight to 1.5% inorganic. And so, there's a lot of things for us to feel positive about and we do, to be clear.

At the same time, you also have to reflect on the fact as we do, that this is the point in time where we are providing guidance over the longest cycle. And so, that comes into the mix by the very nature of the fact that we're guiding over essentially 12 months. And also, we take stock of what's happening in the macro environment as well. And maybe it's debatable, but I would say from our standpoint, perhaps this year, the macro environment is incrementally more volatile than it was last year at the same point in time. You think about the potential for a hard Brexit and, of course, you can reflect on all of the disputes around global trade.

And so, we think about the global environment over that 12-month horizon and it's really in that context that we guide to 5 to 8. And the other thing, Tien-tsin, I would remind you and the others of, is that we guide to 5 to 8 in our market, our investable basket market, that is growing in the range of 2% to 3%. And so, anywhere on that guidance range of 5 to 8, we would be taking significant share. And if you think about the upper end of the range, which is where we always strive for, then at 8%, we would be growing more than two and half times the market.

And so, 5 to 8, which is consistent with what we've done the last three years is, in fact, reflective of what we would consider to be outstanding growth, especially in the upper end of that range, reflective of Accenture as a leader. Anything we do above that is exceptional growth. And it is true that we've had a pattern over the last four years for delivering double-digit growth and we'll see how '19 plays out and we'll update our guidance appropriately as the year progresses.

Tien-tsin Huang
That's great. That seems very prudent. I'll ask my quick follow-up just on the Financial Services segment. I know you mentioned it a little bit, David, just it did lag a little bit, was the impact broad-based or isolated to a region or a few clients? It sounds like North America is okay. I just wanted to get a little bit more detail there. Thanks so much.

Pierre Nanterme
Yeah, sure, so very pleased to comment on Financial Services. If I had to summarize the situation, it's mainly Europe, where we are facing this challenge of lower growth. And it's mainly due to some large programs we had in Europe winding down in the context of '18. So something which is not untypical, by the way, that's happened in other industries these last few years. I remember CMT in Europe just two years ago, we had the same phenomenon of some large programs getting to a close. And so what it is you need to do – and our people are working very hard – you need to replenish the pipeline to build the backlog and that's going to create the revenues of tomorrow. So our people are working on it. We have encouraging signals that, indeed, the pipeline in Financial Services in Europe is building up. We certainly believe that it's going to take a couple of quarters to show in our growth. So we expect H1 to still be in the low single-digits and then H2 to get back more on par with the rest of Accenture. So I do not think anything untypical coming from anything happening to this industry.

Tien-tsin Huang
Thanks so much. Congrats again.

David Rowland
Thank you, Tien-tsin.

Operator
Your next question comes from the line of Rod Bourgeois from Deep Dive Equity Research. Please go ahead.

David Rowland
Hello, Rod, good morning.

Rod Bourgeois
Hey, good morning to you. So, hey, in terms of the revenue growth outlook, I want to ask, are you seeing actual headwinds starting to impact your growth in upcoming months or is your guidance simply accounting for the possibility that some macro headwinds could brew over the course of the next 12 months? I'm just trying to gauge, are you seeing visibility in this slowing or are you just prudently thinking about the next 12 months and what might happen?

Pierre Nanterme
Yeah, I'm going to take on this one because I think David mentioned already some elements of this. From an Accenture standpoint, we're pleased with where we are and no doubt we're entering Q1 with good momentum. Now, for us, Q1 is the end of the calendar '18. So we're moving to a new calendar January 1st. So to be very specific, it's not something we see now, but the role of the leadership of any company is to look beyond the horizon and to understand what might happen in calendar '19. And just to build on what David mentioned, for instance, the Brexit negotiation is going to get to an end and we'll know what's going to happen, and it seems we're more moving to something like a hard Brexit than a soft one. What we're calling the trade war, again, not signaled as we speak to you now that there is an effect, but you know this trade war might impact some industries moving forward. And by impacting these industries, there could be a ripple effect on our business.

We're watching as well very closely Latin America. Latin America, we've been doing well despite the complexities in that region. You see what we are doing in Brazil, which is absolutely great. Now Latin America prospects are concerning as well. And not to mention the other risks we all know. You're starting to see again some volatility in the commodity pricing. Not long ago, we talk about the oil price at $30 a barrel and now it's getting to be very high. Are we about to see some commodity pricing volatility?

Again, all of this we'll see in calendar '19, how things are going to unfold. So that is the answer. Nothing now, but our job is to consider and to risk-adjust our guidance accordingly. Now, that being said, what David said is absolutely true, 5 to 8 is an aggressive guidance if you look at the growth of the basket of competitors and the market. So at 8%, that would be two to three times the market. I would not consider that as conservative.

Rod Bourgeois
Makes perfect sense. And then on the free cash flow outlook, you outperformed on cash flow in fiscal '18, which sets up the tough comparison for fiscal '19. Is there anything lumpy in the fiscal '19 free cash flow outlook? I know you sometimes include some buffer on DSOs in case that moves around, but are there any special lumpy items in the fiscal '19 free cash flow outlook?

David Rowland
There's no special lumpy items. It's, again, we focus more on the absolute number in relation to net income and that ratio – which is, the guidance is actually quite strong in that regard – than we do the year over year change. I mean, we had beyond an outstanding year in DSOs in '18, we really had an exceptional year. And from a guidance standpoint, you're not going to assume that happens every year. And so, for example, Rod, we have allowed for the potential of some increase in DSOs, as an example, but there's not anything other than the normal things that we would kind of factor in, that's in the mix. Again, we would be very pleased to land a free cash flow in the range of 1.1 to 1.2 times net income.

Rod Bourgeois
Very helpful color. Thanks, guys.

David Rowland
Thank you.

Operator
Your next question comes from the line of Darrin Peller from Wolfe Research. Please go ahead.

David Rowland
Hello, Darrin, good morning.

Darrin Peller
Hey, David, thanks. Let me just start off, can you just give a little more color on what you're seeing around wage inflation, specifically in the New or maybe some of your better digital areas? How is it around pricing for those areas? It seems like given your margin guidance, you should be able to pass through price increases to offset anything, but just a little more color on what you're seeing on those variables?

David Rowland
I'll make a couple of comments and Pierre may add as well. I mean, first of all, with the size of our workforce and the diversity of skills and geographies, etc., it's really hard to talk about wage questions in aggregate. And for that reason, we typically steer away from them. But let me just generically say that, I mean certainly when you look at the high-growth areas of the market, especially the leading-edge areas of the market, there are in many cases, premium salaries that go with premium skills. And we hire a lot of those people and we pay the market rate. On the other hand, we do get differentiated pricing in digital.

And that's the point, is that we want to pay at a market-relevant rate to retain people, kind of fit for purpose for the skill set that we're talking about, but what we focus on is whether or not we can get the right bill rates and, ultimately, yield the profitability off of those resources. And so, in that regard, there's not anything that we're concerned about. As I've said earlier, we're always focused on driving our contract profitability upward which, ultimately, means that we have to get the right pricing in relation to what we're paying people and we feel positive about that.

Pierre Nanterme
And maybe just to add on this, I mean, to attract and retain people, it's not always about money. And it's interesting when you're driving analysis and surveys, the number one wish of the people working at Accenture is interesting work. That is the number one. The second is all the working environment and the balanced life, and three, the comp. So at the end of the day, the point is not about giving more money or to be the one who's going to pay the most. It's going to be the company that provides the most interesting work for our people and this is what we do with our rotation to the New and working with our Diamond clients. Second, creating the right working environment, I mentioned that already. And, indeed, competitive compensation. So it's a mix of things you need to work on.

Darrin Peller
All right, that's helpful. Just for a follow-up, I mean could you just deconstruct a little more around the growth of the New, and specifically breaking down what you're seeing in cloud versus some of the Accenture Interactive side, which I know has been a big part of your growth also, and if there's any other big call-outs worth mentioning?

David Rowland
I'll make a couple of comments in terms of just some facts, and Pierre may add some color as well. I mean, first of all, our growth in the New was strong double-digits and that has continued. And when we say strong double-digits, as we said before, we mean very strong double-digits. So let's say well north of 20% is the growth rate that we see in the New. And when you look at the components of the New, we also see strong double-digit growth across every component.

So when you look at digital and the three components of digital, Accenture Interactive, Accenture Applied Intelligence and Industry X, when you look at our cloud-related services and when you look at security, all of those businesses are contributing with strong double-digit growth to the overall numbers that we very often talk about with respect to the New. These are very attractive markets. We are in and strengthening our leadership position in each, and we're benefitting from the growth that goes with it.

Pierre Nanterme
We could be even clearer, because you mentioned the 20% – all of them are growing more than 20, to be very clear.

Operator
Your next question comes from the line of Bryan Keane from Deutsche Bank. Please go ahead.

Bryan Keane
Hi, good morning, guys.

David Rowland
Good morning, Bryan.

Bryan Keane
I wanted to ask a follow-up on that. I think you guys have a fact in there that the New grew about 25% constant currency in fiscal year '18. I guess that means the legacy business declined less versus last year and actually I have legacy business almost being flat to slightly up. So just want to see if maybe we've reached a point where we won't see that core legacy business declining as much as we have in the past because there's a certain amount of spend that always will occur with that business going forward?

Pierre Nanterme
Excellent analysis, indeed. The core is declining less than in the prior year, so you made exactly the right analysis and calculation. But the rationale behind it is we worked hard, not to protect the core, but to make the core more competitive. So it was not like if our strategy was we're going to put all our investment behind the New and let the core decline or become uncompetitive, which would have been extremely bad. So we invested as well in the core, in the form, if I could summarize, of massive robotics and automation, and modernization of what we are providing in terms of, for instance, application outsourcing or other activities you would put in the core where, indeed, we have a rich level of automation which is extremely high. And accordingly, we've been able to protect the margin of the core and limit the erosion. So you are absolutely right, but it's more because we worked on it through robotics, automation and modernization.

Bryan Keane
Okay, very helpful. And, David, without the adoption restatement and changes in the pension accounting, just curious if operating margins still would have expanded the same 10 to 30 basis points? Some folks are getting a boost through 606 on operating margin or pension accounting and I just want to make sure that's not the case here, that there would still be underlying operating margin expansion without those changes? Thanks.

David Rowland
That is correct. It would be the same without the changes.

Bryan Keane
Okay, great, thanks, guys.

Operator
Your next question comes from the line of Bryan Bergin from Cowen. Please go ahead.

Bryan Bergin
Hi, good morning, thank you. I wanted to follow-up on the macro demand question. In your client budgets, the conversations you're having in the U.S., is there any indication that there's been a pull-forward of tech spending demand in '18, due to things like tax reform or just broader deregulation?

David Rowland
I would say no. I don't think we have any evidence that there's been a pull-forward of spending for those reasons. No.

Bryan Bergin
Okay. And then my follow-up. As you're building new New areas in places like Industry X.0 and Applied Intelligence, can you give us a sense of the scale of these businesses and then just talk about what you learned from building out the Interactive business that you're able to now leverage in these new areas?

Pierre Nanterme
Now we have a kind of routine we established at Accenture, which is moving from first and this is the role of our R&D, especially Paul Daugherty and Accenture Research, is to understand what's coming, and [we spent about $800 million in fiscal '18] [corrected] on R&D at Accenture. And their job is to identify the next waves and putting them in incubation in what we're calling strategic growth initiatives. So we incubate, this is what we did for the other businesses. We're starting to test business models and when we're getting to a level of maturity and we see the opportunity to scale and create an impact with clients, then we industrialize and move to the businesses of Accenture. So we learned about this process of incubation to industrialization.

Second, it's all about talent and leadership, and this is where we have the combination between acquisitions and organic growth. So, indeed, we are making acquisitions, as I mentioned in this call – for instance, the three acquisition we made in Industry X.0 this very quarter to attract the skills. So companies of mid, small to mid-size, but having deep skills especially in Industry X.0 on embedded software, and product design, where we are investing a lot.

So we know now how to combine and, of course, all of this supported – I can see Amy Fuller next to me, our Chief Marketing Officer – with good communication campaigns we're putting behind. So we have developed a savoir faire in terms of identification, incubation, industrialization and launching the campaigns behind with a good mix of organic and inorganic behind. So it's quite well oiled, if you will, as a machine.

Bryan Bergin
Thanks,

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

Operator
Okay, that question comes from the line of Harshita Rawat from Bernstein. Please go ahead.

Harshita Rawat
Hi, good morning, thank you for taking my question. My question is on headcount, follow-up to a previous one. So you're hiring almost 100,000 people annually on a gross basis. That's obviously a big number. So my question is where are you hiring people from and are you looking at different kinds of skills versus what you've looked at historically? And most broadly, how should we think about your ability to continue to find and not just attract people and drive more automation in a very tight labor market which puts constraints on the supply of people?

Pierre Nanterme
So on this, I mean we continue to hire on, let's say, onshore large markets, especially in the context of our rotation to the New. Our largest markets are, as you know, U.S., UK, a lot in Germany, Japan. If I had to mention maybe three countries, I would certainly mention the U.S., Germany and Japan, where we are recruiting a lot. But it's true as well in our other mature markets, UK, France, Italy, Spain. So onshore, deep skills, probably more around high-value consulting in the context of the New and in the context of driving our largest relationships with clients, especially with our Diamond clients. And with that, we continue to hire significantly on, let's call it the offshore, especially in India. And thank you for giving me the opportunity not to polarize that now, that we'd be all about onshore, and offshore would be core, legacy. It's not true at all. Not true at all. And everybody who would visit Accenture in India would be blown away by the quality of the people and their rotation to the New. We had an event last year in terms of R&D and innovation where some of our, I'm not going to mention the names, but some of our largest brands and clients from the U.S. have been moving there to support the teams who've been working on truly innovative sessions and brainstorming.

So we continue to invest onshore and offshore, drive the right balance and having the right skills. And this is exactly why to your second question, is there a scarcity in the people – we don't believe, we operate in many markets and in many markets, we find the right people, including business scientists. I think we have more than 2,000 business scientists at Accenture, and growing. And we could find these people all around the world.

Again, to a prior question, Accenture today is very attractive, good for us. So we need to take our chance, and while we are attractive based on our results and positioning, we have no issue in finding the right people.

Harshita Rawat
This is very helpful. Thank you very much.

Pierre Nanterme
Thanks a lot for listening and joining us on today's call.

As you might have guessed, we are and I am extremely pleased with our strong finish and excellent performance for the full fiscal year '18.

No doubt we have strong momentum entering fiscal year '19. And with our leading position in the New, the significant investments we are making and the disciplined management of the business, I am very confident in our ability to continue gaining market share and delivering value for all our stakeholders.

We look forward to talking with you again next quarter. In the meantime, if you have any questions, please feel free to call Angie and her team.

All the best to everybody!