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Conference Call Transcript

ACN - Q1 2008 Accenture Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Accenture's first-quarter fiscal year 2008 conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. (OPERATOR INSTRUCTIONS). As a reminder, this call is being recorded. I would now like to turn the conference over your host, Managing Director of Investor Relations, Mr. Richard Clark. Please go ahead.

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Richard Clark - Accenture - Managing Director, Investor Relations

Thank you, operator, and thanks everyone for joining us today on our first-quarter fiscal 2008 earnings announcement.

As the operator just mentioned, I'm Richard Clark, Managing Director of Investor Relations. With me this afternoon are Bill Green, our chairman and chief executive officer; Pamela Craig, our chief financial officer and Steve Rohleder, our chief operating officer.

We hope you have had an opportunity to review the news release we issued a short time ago. Let me quickly outline the agenda for today's call. Bill will begin with an overview of our results, Pam will take you through the financial details, including the income statement and balance sheet, and Steve will add some operational perspective. Pam will then provide our business outlook for fiscal year 2008, and Bill will close the presentation before we take questions.

As a reminder, when we discuss revenues during today's call, we are talking about revenues before reimbursements, or net revenues.

Some of the matters we will discuss on this call are forward-looking, and you should keep in mind that these forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include but are not limited to general economic conditions and those factors set forth in today's press release and discussed under the Risk Factors section of our annual report on Form 10-K and other SEC filings. Accenture assumes no obligation to update the information presented on this conference call.

During our call today, we will reference certain non-GAAP financial measures which we believe provide useful information for investors. You can find reconciliations of those measures to GAAP on the Investor Relations section of our website at Accenture.com. So now, let me turn the call over to Bill.

Bill Green - Accenture - Chairman & CEO

Thank you, Richard, and thanks everyone for joining us today. We turned in another outstanding performance in the quarter, as we expected. We have built a strong foundation for our business that continues to serve us well. We have great momentum going into the start of the year, we have a highly diversified and durable yet flexible business, and we are positioned at the core of our clients' needs for high performance. We're driving our business with discipline and confidence and are focused on the excellent opportunities we see before us.

Here are some of the highlights from the quarter. We delivered record quarterly revenues of \$5.7 billion, with 19% growth in U.S. dollars and 12% growth in local currency. We achieved record EPS for the quarter of \$0.60. Our \$5.9 billion in new bookings this quarter was another major achievement. We remain confident going forward with our bookings momentum and our revenue targets.

As you know, we continued returning cash to shareholders through share buybacks and dividend payments. During the quarter, our Board also authorized an additional \$3 billion of share repurchases. We continue to keep a very close eye on global economic trends, developments in the capital markets and other issues which may affect our business, but our first-quarter results demonstrate rich opportunities for the right services. We remain committed to and excited about extending our industry leadership position.

We also continue to benefit from our long-term client relationships and our position as a central part of our clients' businesses. Our deep specialized industry knowledge and experience and our focus on business outcomes stand alone in today's market.

Now I will turn it over to Pam, who will provide more detail on our financial performance.

Pam Craig - Accenture - CFO

Thank you, Bill. Happy holidays to you all and thanks for listening today. I am pleased to tell you more about our outstanding results in the first quarter of fiscal 2008. Once again, our quarterly revenues hit a new high, our earnings were strong and our bookings were in line with our outlook. Let me take you through some detail behind the numbers in our income statement, balance sheet and cash flow. All figures are GAAP, except the items that are not part of the financial statements or their calculations.

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Net revenues for the first quarter were \$5.7 billion, above our guided range of \$5.4 to \$5.6 billion, and a new quarterly high. Net revenues increased 19% in US dollars and 12% in local currency over the first quarter of last year. We had very strong revenue generation, and even without the large FX impact for the quarter, we were at the top of our guided annual range of 9 to 12% in local currency.

Consulting revenues were \$3.5 billion, an increase of 19% in US dollars and 12% in local currency. Outsourcing revenues were \$2.2 billion, an increase of 20% in US dollars and 14% in local currency.

Moving down the income statement...

Gross margin was 30.1%, consistent with the same period last year. SG&A costs for the quarter were \$970 million, or 17.1% of net revenues, compared with \$817 million, or 17.2% of net revenues, for the first quarter last year, reflecting continued good management of our SG&A costs. Operating income for the quarter increased 19% to \$726 million, reflecting a 12.8% operating margin, up from \$610 million, also reflecting a 12.8% operating margin last year.

Our effective tax rate for the quarter was 34.6%. Income before minority interest for the quarter was \$506 million, compared with \$406 million for the first quarter last year, an increase of 25%.

Diluted EPS were a quarterly record of \$0.60, an increase of 30% over diluted EPS of \$0.46 in the first quarter last year. About two-thirds of this increase is attributable to higher business volume. The rest is due to a combination of additional below-the-operating-income-line income, a lower tax rate and a lower share count.

Now let's turn to some key parts of our cash flow and balance sheet.

Free cash flow for the quarter was a negative \$120 million, resulting from cash used in operating activities of \$31 million and property and equipment additions of \$89 million. The first quarter is typically our seasonally lowest free cash quarter. This quarter was further impacted by a payment of \$143 million, representing a final determination of reorganization liabilities. As a reminder, at the time of our incorporation we established these reorganization liabilities and, after this item, \$294 million remains, primarily in other current liabilities on our balance sheet. This item had no impact on our quarterly income statement. First-quarter fiscal '08 free cash flow also reflects higher working capital as a result of higher revenue production and the impact of DSO movement.

Turning to DSOs, our days services outstanding were 37 days. This represents an increase of six days from the fourth quarter last year. As we stated last quarter, the year-end level of 31 days was unusually low, and we believe that a DSO level that continues to be in the 30s is strong.

Our total cash balance at November 30 was \$2.47 billion, compared with \$3.31 billion at August 31. Cash combined with \$205 million of fixed-income securities classified as investments on our balance sheet was \$2.68 billion at November 30, compared with \$3.61 billion at August 31. We continued to return cash to shareholders through dividend payments and share repurchases, which I will describe in more detail momentarily.

Total debt at November 30 was \$8 million, compared with \$26 million at August 31.

In connection with the adoption of FIN-48, new guidance related to accounting for uncertain income tax provision positions, we recorded several balance sheet reclassifications. The most significant was a \$757 million reclass from current income taxes payable to non-current income taxes payable, as the new guidance requires us to record these balances in non-current liabilities unless we are certain that the amounts will settle in less than 12 months. There was also a \$16 million adjustment to retained earnings related to differences in calculating tax reserves under the new guidance.

Our balance sheet metrics remained strong. For the first quarter, our return on invested capital was 67%, our return on equity was 71% and our return on assets was 18%.

Before I turn things over to Steve, I will comment on share repurchases and dividend activity. During the quarter, we repurchased or redeemed 16.3 million shares for \$619 million, including \$238 million for approximately 6.7 million shares repurchased in the open market. The average price of shares repurchased and redeemed in the quarter was \$37.98 a share. At November 30, we had \$4.1 billion of share repurchase authority remaining. Also, last month we paid our third annual cash dividend to Accenture Limited Class A and Accenture SCA Class I common shareholders. The dividend payment of \$0.42 per share was \$0.07 more than the dividend we paid last year, representing an increase of 20%.

Finally, let me comment on the size of our public float. Using what we believe to be the most conservative method of calculation, our public float at the end of the quarter was approximately 67%, which excludes all outstanding founders shares.

All in all, it was a great quarter, any way you look at it. Now, Steve will give you some more detail on our operations.

Steve Rohleder - Accenture - COO

Thank you, Pam. Hi everyone and thanks for joining us today. We are off to a strong start in FY '08, with record revenues for the quarter and solid growth across all dimensions of our business. We continue to make progress in implementing our strategy, and we're focused on achieving profitable growth in every aspect of our operations. We're very proud of our first results, including the progress we have made in expanding our business during the quarter.

Let me take you through some of the highlights, starting with our operating groups. All five operating groups recorded their highest-ever quarterly revenues, with Products, Resources and CHT exceeding 20% revenue growth in US dollars and achieving double-digit growth in local currency. I know many of you are interested in Financial Services, so I will point out that revenues in Financial Services grew 17% in US dollars and 9% in local currency in the quarter, driven by outsourcing in EMEA and the Americas. Financial Services, Products and Resources also delivered strong operating margin, while CHT operating margin was affected by one consulting contract with profitability challenges in the quarter.

A key highlight of the quarter is the investment we're making in expanding our industry skills and offerings. A great example is in Public Service, where we're adding new capabilities for defense clients through the acquisitions of Gestalt and Maxim Systems. These acquisitions give us new and distinctive capabilities in the fast-growing area of military command-and-control support services, which represents a significant new business opportunity for us.

Turning to the geographical regions, the diversity of our business is a competitive advantage and was an important driver of our performance in the quarter. We are executing on our strategy of gaining market share in developed countries and expanding into new and emerging markets.

In the Americas, revenues grew 11% in US dollars and 9% in local currency. Results were driven by growth in the United States and Canada, and in Latin America four of our six key countries had exceptionally strong growth, including Brazil and Argentina. In EMEA, revenues increased 25% in U.S. dollars and 14% in local currency, with continued upturn in the UK and double-digit growth in France, Italy, Spain and the Netherlands. Revenue growth in Asia-Pacific was exceptional, with an increase of 29% in U.S. dollars and 21% in local currency, driven by strong results in Japan, Australia, Singapore and China.

We have set out to expand our business in emerging markets, and in Q1 we delivered strong results against this objective.

Turning to the growth platforms, the depth and breadth of skills and capabilities we offer clients really sets us apart in this marketplace. In management consulting, we saw strong demand across all five service lines, most notably in Human Performance, where we're helping clients transform their workforces, source new talent and increase overall productivity. We also expanded our capabilities in management consulting. I was in India a few weeks ago to open up a new management consulting center of excellence in Delhi. Through this center and three others that we plan to open in India—which will serve both our global clients and our domestic business—we'll deliver a wide range of services, such as data analytics, workforce optimization and supply chain strategies.

In outsourcing, we're seeing demand for application outsourcing as well as BPO. Growth is being driven by demand for finance and accounting, learning and procurement services, and we have also expanded our vertical industry BPO offerings in health administration and in pharmaceuticals.

In systems integration and technology, we're still seeing strong demand for ERP, and the breadth and depth of our SAP and Oracle skills is a major advantage for us. Our technology consulting business continues to grow in double-digits, with strong demand for Microsoft Technology Services. We expanded our technology consulting capabilities through the acquisition of Corliant. This acquisition will help us deliver against the growing demand for network consulting services, including advanced IP network solutions, which represent a high-growth opportunity for our business.

We also continued to invest in the expansion of our global delivery network, ending the quarter with more than 75,000 people, a 41% increase over Q1 last year. While GDN headcount was strong in Asia-Pacific, especially in India and the Philippines, we also expanded our capabilities

by adding new talent in the Americas and EMEA. Our global delivery network is in a class by itself and continues to be a major competitive advantage for us.

Finally, let me turn to a few operational metrics. Bookings were \$5.9 billion, including consulting bookings of \$3.4 billion and outsourcing bookings of \$2.5 billion. Our solid new bookings reinforce our confidence in our ability to drive revenue growth in FY '08.

Turning to people management, we continued to recruit aggressively, ending the quarter with over 175,000 employees. Utilization was 83%, in line with our expectations, and attrition improved slightly to 17%. Managing supply and demand is one of my top priorities. By continuously tracking and carefully managing a number of levers—including utilization, attrition, recruiting and training—and then balancing them against market demand, we are able to maximize our operational performance.

In closing, we've built a business model that is second to none, with specialized capabilities across virtually every major industry sector and geography as well as across a full range of management consulting, systems integration and technology and outsourcing services. As a result, we're well positioned to continue our growth trajectory throughout fiscal year '08.

And with that, let me turn it back to Pam for our business outlook.

Pam Craig - Accenture - CFO

Thank you, Steve. As a reminder, each quarter we provide an update on our annual outlook for the full fiscal year. We also provide outlook for the next quarter for revenues.

For the second quarter, we expect revenues to be in the range of \$5.5 to \$5.7 billion, which assumes an FX lift of approximately 7%.

Now, let's turn to the full fiscal year. We continue to target new bookings in the range of \$24 to \$26 billion. We continue to expect our revenue growth to be in the range of 9 to 12% in local currency. We continue to expect operating margin for the full year to be in the range of 12.8 to 13.1%. Given the seasonality of our business, fluctuations quarter to quarter should be expected.

We now expect our annual effective tax rate to be in the range of 32 to 34%, a decrease of 1% from our previously communicated range. We are now increasing our outlook for EPS for the year by \$0.15 to a range of \$2.36 to \$2.41. This reflects the strong results delivered in the first quarter and updated estimates, including a lower annual effective tax rate for the rest of the year.

To complete the annual outlook for fiscal 2008, we now expect operating cash flow to be in the range of \$2.27 to \$2.47 billion, property and equipment additions to be \$420 million, and free cash flow to be in the range of \$1.85 to \$2.05 billion. This is a decrease of \$150 million from our prior outlook and reflects the previously mentioned reorganization liability resolution which arose in the first quarter.

In summary, our first-quarter results reflect those of a healthy business on a path for continued growth and profitability. We have a portfolio that is broad-based, across industry segments, across the different types of work we do and across all the geographies where we do business. We remain confident that we will continue to maintain and expand our strong presence in the markets we serve.

So here is Bill to close before we take your questions.

Bill Green - Accenture - Chairman & CEO

Thank you, Pam. Let me recap quickly before we take your questions. First of all, we are absolutely delighted with our performance in the first quarter, and we continue to execute against our growth agenda. We achieved record quarterly revenues and EPS. Our balance sheet remains extremely strong. Despite challenges in some sectors of the economy, demand for our services continues to be robust, and we see tremendous opportunities to assist clients. We continue to expand our capabilities that differentiate Accenture from our competitors, and we sustained the momentum that we had developed in 2007, as we expected we would.

Now let's go ahead and open it up for some questions.

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QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Our first question comes from Andrew Steiner, with Bear Stearns.

Andrew Steiner - Bear Stearns - Analyst

Could you just give some comments about IT budget process? Is it coming along in a normal fashion? Obviously you're very clear that demand for your services are strong and obviously not solely dependent on IT budgets. But could you just give us an IT budget comment?

Bill Green - Accenture - Chairman & CEO

Yes, Andrew, this is Bill. I've been out in the marketplace for pretty much the last month, and this is the time of year everyone is pulling those together. I think the first place we start is we look at what do people think is going to happen to their business. And I think on balance, people are pretty confident about what they see is going to happen in the business. And even in some of the areas that are challenged, people continue to invest broadly in their business. Now IT is a part of that, but there are a lot of other things people are doing to improve their business performance. So, frankly, we haven't seen any impact of an IT budget thing on our business at this point.

Andrew Steiner - Bear Stearns - Analyst

Super. And Pam, could you just go through a couple of puts and take on gross margin year-over-year?

Pam Craig - Accenture - CFO

I'm sure you saw that our gross margin of 30.1% was consistent with last year. This is a good result. First of all, as we stated previously, we did implement larger salary increases this year and got that covered in our pricing in the first quarter. And also, our utilization levels are slightly lower than we were last year, and we think this is a more healthy level. So I think this was -- these were the two primary things that we were addressing in the first quarter, and you see that reflected in the margins. I'm never going to give up, as I know you won't, on gross margin, so we're going to continue to look for the leverage in pricing and in contract profitability.

Andrew Steiner - Bear Stearns - Analyst

Sounds great, thanks so much.

Operator

Rod Bourgeois, with Bernstein.

Rod Bourgeois - Bernstein - Analyst

Just to look at the demand environment, just two sets of questions on things that might be leading indicators. Are you seeing any evidence of above-normal levels of deals getting cut midstream as companies struggle with the economy that's out there? And then also, are you seeing any new deals that are getting pushed out in the pipeline due to the economic distractions that might be out there?

Bill Green - Accenture - Chairman & CEO

We've spent a lot of time and a lot of rigor on that over the last week or so just so we could be able to answer the obvious question that one of you folks was going to ask. The fact is, we haven't had any deals terminated because of the economic situation, and we have had nothing pushed out

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because of the economic situation. When you stand back and look at it, if you look at the United States business, which again is dramatically less than half our business, 70% of the US companies in the business roundtable expect pretty significant increases in sales, and almost 80% of those companies think and expect their employment to rise. That is for 2008. So that's one thing we look at in terms of what's going on out there. I would tell you this. There are some of the industries that are challenged, there are some clients that are coming to us for services that address short-term cost improvement. So it has caused some acceleration in some of our offerings that may have been more modestly pursued in the last few years, but that is the only thing that we have seen different given the current economic situation as it stands today.

Rod Bourgeois - Bernstein - Analyst

Great. And then Pam, on the \$0.15 of increase in your fiscal '08 EPS guidance, can you give us the puts and takes on that \$0.15 increase just so that we are precise on where that \$0.15 is coming from?

Pam Craig - Accenture - CFO

Yes. You can think of it this way. Roughly a third of it is from the first quarter and the good results in the first quarter, and I broke down some of that before, that this is primarily from operations, but also that there was a gain in the below-the-operating-income line item. And so I think that that flowed through. In terms of looking at it for the rest of the year, it's a combination of operations, of a lower annual effective tax rate and an updated estimate on share count.

Rod Bourgeois - Bernstein - Analyst

Okay, great. Thank you guys very much.

Operator

Adam Frisch, of UBS.

Adam Frisch - UBS - Analyst

Great quarter in the face of some pretty high concerns there. I want to look at outsourcing bookings. Over the last years, they have been okay. They haven't been stellar. Maybe one quarter a couple of years ago, they were great, but for the most part they have been okay, nothing like consulting strength. Yet, your revenue there, growth has been a lot higher. Great result, but what is it due to? Is it due to expansion of contracts once you get in there, or what, and how sustainable is that kind of trend?

Steve Rohleder - Accenture - COO

I think it is a result of a number of extensions that we experienced in some of our foundation and diamond clients. And so I think that is just a result of us expanding our footprint in the outsourcing world within a client's environment. There are a number of deals in our pipeline as well that I think support the guidance that Pam has put out there. So in spite of some of the doom and gloom that has been put out in the outsourcing world, there is still a significant number of opportunities. Frankly, we are being a little bit more selective in specific areas of outsourcing when it comes to going after some of these deals, so there's no shortage of opportunities out there. We are just going to continue to be selective about the ones we go after.

Adam Frisch - UBS - Analyst

And the expansion of deals that you're already working on, do you include those in your bookings?

Steve Rohleder - Accenture - COO

Yes.

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Adam Frisch - UBS - Analyst

Okay. And those are obviously higher margins because they have lower sales costs and you're already in there? So, most of them would be higher on the margin side too?

Steve Rohleder - Accenture - COO

Yes. Depending on whether it's a new area or an extension of an existing area. It depends.

Adam Frisch - UBS - Analyst

Two questions for Pam. First, which share count are you assuming for the end of the year?

Pam Craig - Accenture - CFO

We're projecting that it will continue to go down modestly.

Adam Frisch - UBS - Analyst

Anything -- any more color than that?

Pam Craig - Accenture - CFO

Well, we have not previously provided guidance on our weighted average shares. They were at 839 [million] at the end of the quarter. And as I said, it will continue to go down modestly with share buybacks, and also that will be slightly offset by the issuances.

Adam Frisch - UBS - Analyst

Got it. Last question. I know you did a couple of acquisitions recently. I know they've been small, but did they add anything material to the revenue or EPS side?

Pam Craig - Accenture - CFO

No.

Adam Frisch - UBS - Analyst

Thanks again, guys, good quarter.

Operator

Julio Quinteros, from Goldman, Sachs.

Julio Quinteros - Goldman, Sachs - Analyst

Thanks guys. Steve, just to go back through the points that you made about the areas that you're really focused on to continue to balance supply, demand and all of the other issues in the model, if you could walk us through where you feel like you have the most leverage, whether it's

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utilization, whether it's recruiting, whether it's headcount -- just kind of give us a better feel for the individual levers that you look into to help you manage the overall business.

Steve Rohleder - Accenture - COO

Let me actually expand it out of the supply demand management area, because I think it's important to note some of the other levers that we're continuing to watch. Pam alluded to the pricing initiative that we've got and the progress we made in Q1. We're going to continue to focus on that. We've made some very good progress. I think we have some more work to do to continue to institutionalize that, put some tools in the hands of our senior executives and really drive pricing into our DNA. That is one area. SG&A is another area. I think that on the G&A front, we have made some great progress in moving people to lower-cost locations in our corporate functions. I think we also did a great job this quarter in terms of our consolidated procurement initiative in driving down costs there. Where we have some opportunity is to drive down our cost of sales. I think it's safe to say that we have some inefficiencies there that I think we can improve on, so I think that there's some expansion there.

The third area is chargeability, and you touched on it. I think that while we are running at the target, last year we were at 86. I think, and I said this, I think we're running too hot. We've brought that down to allow our people to go to training, to allow them to work on some investment opportunities that we have. There are pockets of the firm that we are working to get the chargeability up a notch or two, but while I think we will make progress there, I know we will make progress there, I think the key is that you're not going to see much leverage from that. And then, the final one is just delivering on what we say we're going to deliver and making sure that our contracts are performing to the profitability targets that we have. And I do believe that there is some expansion capability there. So hopefully that helps.

Julio Quinteros - Goldman, Sachs - Analyst

That is helpful. And on that profit comment, you made some comment about the Communications and High Tech area, having some profitability issues. Was that just cost overruns, or was there something else going on there, in terms of profit impact?

Bill Green - Accenture - Chairman & CEO

No, it was just sort of a one-time thing that we did, a realignment with one of our contracts. We continue the relationship with the client and we continue to be honored to work there and do well. But it was a big one and it was something we sorted through in the quarter.

Julio Quinteros - Goldman, Sachs - Analyst

Finally, Bill, you made a comment in the previous question I believe about an acceleration in some services that you're seeing now as some of your clients come to you for some issues related to short-term cost improvements. Can you just elaborate on what those types of services are?

Bill Green - Accenture - Chairman & CEO

In the last four weeks I did probably 20 CEO one-on-one's, mostly in the United States. And in every one of those sessions, there were opportunities to expand our work and deliver more value to the client. But in some industries that are challenged, people that might have been taking a longer-term view are sitting here at the beginning of 2008 and they are saying, I know we're going to do this transformation that's a three-year journey, but there is a thing called the high impact near-term returns. And people are saying, can we drive short-term cost reduction and use some of the benefits of that to fund the longer-term transformation. And my comment was about you see a little more of that in some areas of financial services as you would expect, and then other than that, it's probably just with companies that have a challenge in one industry or another. But there is a time when the short-term cost reduction, I think if you think about the time of the year we're on, people are looking at 2008 and saying, what can you guys do so I can bring some money to the bank in 2008 for their 2008? And I think that is where the demand comes from.

Julio Quinteros - Goldman, Sachs - Analyst

With 43% of your headcount in global delivery network now, does that make you feel better about having the business set up that way then?

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Bill Green - Accenture - Chairman & CEO

I'm relaxed about it. There hasn't been anything that has come up that we don't have the horses and the capability and the "been there, done that" experience to do. So I think at the end of the day, it's managing a portfolio of services across a fairly diverse company. But luckily, we're at critical mass in every country we operate around the globe, so it's just a matter of different offerings than it would be anything else.

Julio Quinteros - Goldman, Sachs - Analyst

Great, thank you.

Operator

Moshe Katri, from Cowen & Company.

Moshe Katri - Cowen & Company - Analyst

Thanks. Listening to the call, it feels as if management is even maybe a bit more bullish compared to about a month ago when the analyst day took place. Is that the right impression? And then maybe you can talk about what has changed during the past four or five weeks in terms of talking to clients. And then on top of that, our surveys are indicating that there may be some deferrals and spending decisions more to the January-February time frame. Maybe you can also touch base on that. Thanks.

Bill Green - Accenture - Chairman & CEO

I guess I would just tell you, I don't know, when I'm bullish, I guess I get in trouble. So I try to be thoughtful about it. What I do, make sure I do, is have a handle on what the hell is going on in the business, and the only way to do that is with the big clients. And that is why I have spent the last month out on the road, taking people's temperature, seeing what people are focused on, what do they need to do. Is globalization still driving the competitive agenda? All the things that had been going in the past. And the fact is they are. And every day, there are changes in the competitive dynamic, and those changes create opportunities for Accenture.

So I think in one way, you can either let the business drive you or you can drive the business. I think what our leadership team has done—knowing there are some uncertainties in the environment—is made sure we took charge and that we're driving the business. One of the things that Steve talked about is areas of expansion. He talked about an acquisition that built out more capability around the network, which is sizzling hot. He talked about a couple of acquisitions to get into the C4 space and the military stuff. Again, sizzling hot. We have incredible presence there, but these give us new products and services to bring to market, and that is just sort of the day job and that's what we're doing. So, frankly, we feel the firm is in good hands and we feel in good shape, and then all of our soundings in the market globally, we feel good about the business.

Moshe Katri - Cowen & Company - Analyst

Finally, this is a question to Steve, maybe talk a bit about your specialized sales force that actually is focusing on selling what we call offshore-like services.

Steve Rohleder - Accenture - COO

Okay, in the basic AO area. We have been really pleased with the productivity of that group. Frankly, I wish I had about three times the size because I think the market is there and we're now looking at opportunities to expand that workforce even more aggressively than we have in the past. So I'm pleased with the level of sales and bookings that that group has generated. We have limited the growth to the US and the UK. I would like to expand it beyond there, frankly. We have some plans on the table right now to move more aggressively into Q2 and Q3 in that area. So overall, Moshe, I'm really pleased with what we have done.

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Moshe Katri - Cowen & Company - Analyst

Great, congratulations on the quarter.

Operator

Bryan Keane, with Credit Suisse.

Bryan Keane - Credit Suisse - Analyst

Bill, when you say some industries are challenged and that they are coming to you for some short-term cost cutting, I just want to be clear -- what industries are you referring to there?

Bill Green - Accenture - Chairman & CEO

Well I will give you a couple of examples. Obviously certain areas of banking are looking at what can we do to achieve short-term cost improvements. That sort of goes without saying and it's something they do periodically and given the current environment that we're in right now, people are focused on that. You read about it every day. Then you go to sort of the sectors. You go to, for instance, pharmaceuticals. If you look at the life cycles of pharmaceuticals companies, some of them have red-hot drugs that are going to market and some of them have things coming off patent and are challenged. And so those companies are looking at strategic rationalization and improving their cost position so they can spend that money on R&D to get new products to market. So those are just two examples that actually have come up in the last few weeks where what people were looking to us for -- now these are long-term relationships -- but what the companies are looking to us for now is help me with short-term cost improvement because I want to use that money for something else to drive my business.

Bryan Keane - Credit Suisse - Analyst

And then, Steve, maybe you could just follow up on Financial Services. You mentioned obviously before are concerned about that. Can you just talk about the different areas there -- core banking, insurance and capital markets and the health of those markets?

Steve Rohleder - Accenture - COO

I will start with Insurance. We had kind of steady growth in the Americas and in Asia-Pac, but the big growth in Insurance came in EMEA. If you look at the other two industries -- Capital Markets and Banking -- actually, I just observed the numbers for Q4, looking at how we have grown those two industries. They both have grown in double-digits in the Americas over the last two quarters. So I think we're holding our own. Make no mistake about it, it's very, very competitive out there.

We have also seen a shift, quite frankly, or an adjustment if you will, to more outsourcing opportunities, which suits us fine. We just basically are cognizant of that and we've deployed the resources to address that part of the market. So we're going to continue to push in the market. We have a great leadership team. You met Pierre at analyst day, and I think that team is going to go after the market in a very aggressive, very creative way. They're going to be selective about the deals they go after and they are going to be very focused on driving profitable growth in that segment.

Bill Green - Accenture - Chairman & CEO

Let me just drop in just because I think if you stand back and look at it, we have hundreds of what we call foundation offerings, which are the things we take out to market and put in front of the clients. We have this discussion about discretionary and we assert that not much of what we do is discretionary. Well, discretionary means doing something or doing nothing. The fact is, a lot of these companies just need to do something different in Financial Services, and therefore it's a different set of offerings that we need to bring to the table and it's a different set of outcomes that we need to focus on. And Steve's point on the outsourcing is that's a shift that says when people are looking for cost or guaranteed customer service and cost price performance level, outsourcing is a way to get leverage from that. And so it's a shift in the offerings, but the activity really doesn't die down or go away. What happens is, we need to bring different skills and different offerings to the table.

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Bryan Keane - Credit Suisse - Analyst

So the pipeline in Financial Services still looks pretty good. I know at the analyst day, Karl-Heinz spoke of a couple of large financial deals. But that's what gives you confidence there? You don't expect it to drop off in fiscal year '08?

Bill Green - Accenture - Chairman & CEO

There's two things. I think one is, there are the larger deals, which Karl-Heinz referred to, and then there is the sort of street stuff. If you go down the hall here in New York and you talk to our capital markets people, it's busy as a beehive down there. I think the thing is, it's a different set of offerings that we are needing to bring to the market and we still have to convert those. That's our job to go do that.

Operator

Tien-tsin Huang, from JP Morgan.

Tien-tsin Huang - JP Morgan - Analyst

Pam, maybe can you walk us through the change in the cash flow guidance? It looks like it's being revised down by a roughly amount of reorg liability, so I just wanted to make sure that I am not missing anything there, especially when you're not fully capturing the amount of the raise and the EPS guidance in relation to the cash flow.

Pam Craig - Accenture - CFO

We did a pretty detailed study of the free cash flow, Tien-tsin, and yes, the basic math is that the reorg liability amount is the amount that we decreased the cash flow guidance by in terms of the annual outlook on that. Now, there are a number of puts and takes that go into cash flow, including changes in our DSOs, and cash payments, right, accounts payable, taxes, whatever. So I think that what we're trying to do is just make sure that with the DSOs, which again, in the 30s, very strong, but we want to make sure we can cover that. So we ran the numbers, and this is the guidance.

Tien-tsin Huang - JP Morgan - Analyst

Okay, so it sounds like just conservatism on the working capital after a pretty good performance last year.

Pam Craig - Accenture - CFO

Well, conservatism, the DSOs in the 30s is incredibly strong, as you know. It's industry-leading and we are very proud of that and I believe our people will continue to maintain that. But, yes, we have that in there.

Tien-tsin Huang - JP Morgan - Analyst

Understood. I know I ask this I think almost every quarter -- but I just wanted to make sure that the growth in the GDN headcount is still consistent with the revenue growth out of the GDN.

Steve Rohleder - Accenture - COO

Yes, I think it's consistent with where we think the GDN should grow. It's hard to draw a -- connect one dot growth of GDN to growth in revenue. What is important to us is to make sure that we have connected the growth in the GDN to the growth in demand of the work that we are selling and doing that demands those kinds of services. So I think we have a very strong connection. The group that runs the GDN is very sensitive to any kind of adjustment in chargeability or adjustment of demand. They look at the pipeline, they look at what's coming down the pipeline the next

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two or three quarters in terms of potential demand. They are very sensitive to what's being booked and the skills that are going to be needed there. And, frankly, because of some of the operating model changes that we've made, they now have flexibility I think to move people not only within centers a lot more readily, but across centers. And I think that has helped our efficiency as well.

Tien-tsin Huang - JP Morgan - Analyst

Got it. So is it safe to say you are pleased with the cost structure in the GDN today?

Steve Rohleder - Accenture - COO

I am, yes I am.

Operator

Julie Santoriello, with Morgan Stanley.

Julie Santoriello - Morgan Stanley - Analyst

A question on bookings. The bookings guidance for the year implies about 9 to 18% growth. For the quarter, it looks like about 8% growth year-over-year, consulting being very, very strong and outsourcing being sort of flattish. Can you comment on that, especially in light of what Steve had mentioned, that you had started to see some increase in outsourcing demand, but it seems as though it's not quite showing up in bookings yet? Can you just go into some detail on how bookings are shaping up, if there are any changes or surprises in what is coming through?

Pam Craig - Accenture - CFO

Julie, this is Pam. I think first of all, as you know bookings are lumpy, and particularly outsourcing bookings are lumpy. So even though the book-to-bill on outsourcing this quarter score was 1.1, we're still targeting 1.2 for the year. Bill, do you want to add some color?

Bill Green - Accenture - Chairman & CEO

I would just say that we look hard at this, and obviously because of the economy we're in and the stuff that you guys are saying, we look doubly hard at it. Importantly, when we stand back and look at it, we remain confident with the bookings momentum that we have and the revenue targets that we have for the company, which are the yield out of those bookings. And one of the things that I always talk about is activity, which I know is hard for people to measure and quantify, but the activity in terms of the buzz in terms of what people are chasing around here and where the opportunities are is the same as it has been. We continue to be focused on it. So, frankly, we are relaxed about the bookings and the revenue targets.

Julie Santoriello - Morgan Stanley - Analyst

Thanks. Would we naturally expect over the course of the year to see increasing strength in outsourcing and perhaps some moderation realistically in consulting?

Bill Green - Accenture - Chairman & CEO

I think, as Pam said about lumpiness, in one quarter two outsourcing things can make a real dramatic difference, and whether they happen in Q2 or Q3 or Q4, I think it's hard to put a finger on that. I do think there are reasons that consulting demand continues to be good. I think there are reasons that consulting bookings for the quarter were good, and that is a lot of services around sort of -- if you talk about short-term cost reduction, that is a consulting assignment. So there are still a lot of things going on that drive consulting demand. So I think within the bandwidth that we expected as we planned the year, we think we're going to stay right within that bandwidth. I would like to see as we mentioned last year

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more acceleration in consulting, but I think Steve made an important point earlier, and that is the quality of the deals has to be there and that is something we have had the luxury of choosing and we hope we'll still be able to choose the deals that we take.

Julie Santoriello - *Morgan Stanley - Analyst*

Great. And just one quick clarification on, for those customers that have started down this path of looking for quick cost savings type of things, does this almost universally mean offshore?

Bill Green - *Accenture - Chairman & CEO*

Oh no, absolutely not. It has to do with rationalizing of strategy and our people putting their investments in the right place. Are they focused on the most profitable offerings? In certain industries, it has a lot to do with customer service because a major cost in certain industries is the cost that it takes to maintain a certain level of customer service. And the question is -- how can you maintain or improve that level of customer service for less money? So I do not at all connect the two. Now, downstream might there be opportunities for people to have services performed in a lower-cost profile environment? Absolutely right. But the going-in position is finding and tuning what you need to do to drive out the cost. And some of the offshoring stuff may be medium or longer-term cost improvements, but the short-term ones may come from classic re-engineering, Six Sigma and rethinking how people do things.

Operator

Pat Burton, with Citi.

Pat Burton - *Citi - Analyst*

Congratulations on the quarter, outstanding numbers in this environment. My question relates to the operating margin outlook. As the year plays out, do you anticipate any improvement in the margins year-on-year? Thanks.

Pam Craig - *Accenture - CFO*

Our annual guidance for operating margin was 12.8 to 13.1%, which is a 10 to 40 basis point improvement over last year. So we certainly expect to do at least as well as we did this quarter.

Pat Burton - *Citi - Analyst*

Which was up year-on-year. Will that come from the G&A side, or the sales and marketing? I know you've been making progress in both of those areas.

Steve Rohleder - *Accenture - COO*

I kind of went through about four different levers that I look at. I do think that we can get more efficient on the sales side. I think the G&A side, we have some targeted goals that we want to hit. We hit them in Q1, I think we're well on our way for the rest of the year as well. But it's a combination of that, it's a combination of pricing, chargeability in certain areas around the world, and really getting our projects to deliver on the original deal economics consistently across the place.

Operator

Elizabeth Buckley, with Arete Research.

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Elizabeth Buckley - Arete Research - Analyst

Just on the outsourcing business, could you summarize where you're trying to drive higher outsourcing growth? You talked about this at the last quarter. Could you just talk about focus areas for driving higher growth in that business? And then also talk about if you're seeing a shift away to more of a cost focus outside of FS or the particular company or sector, the pharma sector that you mentioned, Bill, if you're seeing that elsewhere? Thank you.

Steve Rohleder - Accenture - COO

Elizabeth, let me start with the outsourcing question that you had. In terms of specific actions and focus areas for us, obviously application outsourcing is a large piece of our business and we're continuing to push very aggressively, not only with new clients but with existing clients there. One of the emerging areas that we're focusing on to round out our service offerings is infrastructure outsourcing. We've had some great examples of being able to go into existing clients and provide infrastructure outsourcing services. We continue to compete toe-to-toe with a number of organizations out there in this area and we think it's a great growth area for us to marry technology and some of our outsourcing skills. And then, in the BPO area, I would separate that into two buckets, if you will. One is in the finance and accounting, learning and procurement areas, where we are continuing to push and seeing some very strong growth. And then on the vertical BPO side, we've talked a lot in past earnings calls about where our BPO business is going and the focus on the vertical offerings that we have. I think this time, I've tried to highlight the fact that we've taken an existing area and expanded it. I think that's an important point as we look at how we're really going to expand the vertical BPO business. I think our focus is going to be on adjacent businesses, not necessarily going into brand-new ones because the cost of investment is lower, and frankly the ability to drive financial results is there much quicker.

Bill Green - Accenture - Chairman & CEO

Let me answer the second part of your question. I think there's been an interesting phenomenon in that a couple of things have been going on in the market in the last three to four months. One is, some of the new entrants in the outsourcing business are starting to stub their toes, and those are people that sold cost-based deals and are having delivery issues, or service-level issues associated with the cost. The other thing that has happened is as people have gotten more experienced with this, they understand the power of the transformational proposition as opposed to the cost-based one. And so I find that people are a lot more tuned in to what's the service level, what's the predictability, what's the reliability, all of those things as it relates to the outsourcing proposition. And that demand plays to the Accenture strength because our agenda is transforming the processes and operating in a different way to get not only a better cost profile, but also improved performance output. And so I think there's a couple of things going on right now which you'd tend to think, when you get cost pressures, people would leap outside for cost, but I think that people have a lot of experience with this now. And some of the outsourcing demand is just an acceleration of certain outsourcing agendas that companies already had. And then, the last thing is that I don't think there's a Board today that isn't asking the management of the Company, have you considered leveraging outsourcing in order to perform these processes? And I think people look at it smartly because a lot of these processes are in fact processes that touch the customer, and therefore the quality and dependability of the output and of the provider is essential to them. And we think all of those things point in our direction.

Elizabeth Buckley - Arete Research - Analyst

Could I just ask a quick follow-up on the share buyback policy? You bought back 6.7 million shares in the open market. Could you just clarify the intent of your current and future buyback program as regards returning capital to shareholders versus something like covering the founders' share overhang and employee options, RSUs, etc.? Because if you look at your total authorization, at the end of the quarter I think you had 4.1 billion, and on my calculations that's 116 million shares. And it looks like you still have about 185 million founders shares that could be transferred before the end of '09. If you could just remind us the rationale or the philosophy behind your share buyback program. Thanks.

Pam Craig - Accenture - CFO

We have a normal-course share buyback program from active calendars that we do quarterly and we need to execute that every quarter. We also look for opportunities to buy back in the open market when we think the price is right. And as you know, we did that in this past quarter. At the analyst day about a month ago, I did go through some analysis of what we call the '09 overhang, or the shares that come due in '09, and we would be happy to get into more detail with you on that offline.

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Elizabeth Buckley - Arete Research - Analyst

Thank you.

Richard Clark - Accenture - Managing Director, Investor Relations

Operator, we have time for one more question.

Operator

Tim Fox, from Deutsche Bank.

Tim Fox - Deutsche Bank - Analyst

One question, I guess a multi part. In your discussion earlier talking about some of the possible shorter-duration impact hit contracts, I was just wondering if you could talk in general about where durations have gone, given the fact that outsourcing contracts have definitely shortened over the past few years. I'm just wondering as you look out into the consulting business, do you see any possible risk of shorter-duration contracts actually impacting your outlook for bookings for the year?

Steve Rohleder - Accenture - COO

On the outsourcing thing, I think we've been pretty public about the fact that, as you point out, we have seen overall duration go down. While that has happened, we look at that, but we also look at the contract yield for our outsourcing projects and we haven't seen any drop in that number. So I think frankly, it's safe to say that they have stabilized. We had seen that over the last 12 to 18 months, and I think the time frame right now is pretty stable.

On the consulting side, we have not seen any change, regardless of whether it's customer segmentation work in the retail area or work in the capital asset management area for utilities or any of the straight consulting work we have. Typically, it's not time-sensitive in terms of six months, 12 months, whatever. It's time sensitive in terms of the business outcome that our clients are asking for. And, frankly, that has not varied much in my tenure here. So there hasn't been much change. And to your question on whether it would impact our outlook, frankly what we have in our pipeline, how that is time-phased and the probability of what we have in there impacts our outlook more than anything.

Bill Green - Accenture - Chairman & CEO

I would just add that our consulting isn't boutique-y little jobs. They are big jobs that people are going to make a decision, they're going to be of relatively long-term duration, they're going to be outcomes-based and a lot of the economics are going to be based on delivering a solution or an outcome to the company. So there's a little less option in terms of shortening things up.

Tim Fox - Deutsche Bank - Analyst

Okay, great. One other maybe for Steve just 41% growth I think it was year-over-year on your global footprint. Just wondering if you could comment generally about the hiring, particularly in India. We've heard from other companies that the hiring seems to be easing a bit, which was certainly different from the past couple of years. But if you could just comment on overall hiring plans there, how is attrition looking, wage inflation, just the general pressures on that market would be great.

Steve Rohleder - Accenture - COO

Attrition is in line with our expectations. We did put through a raise across the board in India that was consistent with where we felt we had to be from a market standpoint. We've begun to recoup that in the marketplace. Our hiring plans are driven specifically, Tim, by the market and it's difficult to say, are your hiring plans harder or softer, more aggressive, less aggressive in India, because we don't look at it that way. What we

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look at is the global delivery network and what is the demand for our services across the 30 to 35 centers that we have there. But our hiring in India basically for the quarter as I've looked at it is consistent with what our demand is going to be.

Tim Fox - Deutsche Bank - Analyst

Thank you, great quarter.

Pam Craig - Accenture - CFO

Thank you.

Bill Green - Accenture - Chairman & CEO

Let me just say a couple of things in closing. First of all, we completed the first quarter of 2008 with great confidence and with great momentum. We remain committed to expanding our capabilities, strengthening our global franchise and increasing our competitive differentiation. In short, we're committed to winning and driving future growth and profit. Durability, diversity and differentiation of our business, serve us well; I think you can see that. We support this with operating discipline and the flexibility required to execute for our clients and for our shareholders.

Lastly, our performance reflects the continued effort by more than 175,000 men and women of Accenture to continue our breakaway from the competitive pack. Our emphasis on high-performance shapes every single thing that we do.

So again, thanks for joining us today. We appreciate your continued support and we wish you a happy holiday.

Operator

Ladies and gentlemen, this conference will be available for replay today at 9:45 p.m. until January 2, 2008, at midnight. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701 and entering the access code of 897991. International participants may dial 1-320-365-3844. (OPERATOR INSTRUCTIONS).

This does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference service. You may now disconnect.

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