

FINAL TRANSCRIPT

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ACN - Accenture's 4th Quarter & Full Year Fiscal 2008 Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Accenture's fourth quarter and full year fiscal 2008 earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. (OPERATOR INSTRUCTIONS) And as a reminder this conference is being recorded.

I would now like to turn the conference over to our host, the Managing Director of Investor Relations, Mr. Richard Clark.

Richard Clark - *Accenture, Ltd. - Managing Director, IR*

Thank you, operator, and thank you, everyone, for joining us today on our fourth quarter and full 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 the first quarter and full fiscal year 2009, and Bill will close the presentation before we take questions.

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As a reminder, when we discuss revenues during today's call we've talking about revenues before reimbursements, or net revenues. Some of the matters we'll discuss in 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 news release and discussed under the risk factors section of our annual report on Form 10K and other SEC filings. Some of you have asked what our approach is around our quarterly announcement. As we enter our new fiscal year, I would like to reiterate our practices.

You should expect that we will hold our earnings calls during the fourth week after the close of each fiscal quarter, except for our first fiscal quarter announcement in December, when we will hold our call during the third week following the close of our first quarter, which is November 30th. You should also expect that our four scheduled earnings releases and regular quarterly conference calls will be when we report our financial results and business outlook. During our call today we will reference certain nonGAAP financial measures which we believe provide useful information for investors. You can find reconciliation of those measures to GAAP on 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 Bill.

Bill Green - Accenture, Ltd. - Chairman, CEO

Thank you, Richard, and thanks, everyone, for joining us today. We continue the momentum we've seen throughout the year by delivering a strong fourth quarter and closing out an outstanding fiscal 2008 for Accenture. Despite economic turbulence which the events of the past two weeks clearly show as ongoing, clients continue to ask for our help, whether to improve their operational performance to enter new markets, to compete more effectively, or to reinvent or transform their entire business. Here are some of the highlights from the fourth quarter and the year. We delivered very strong quarterly revenues of \$6 billion driven by double-digit growth in US dollars across all of our operating groups and geographies. We delivered record annual revenues of \$23.4 billion. We grew EPS by 35% for both the quarter and the full year.

We expanded operating margin for both the quarter and the year. We had our highest ever quarterly bookings of \$7.7 billion, and our highest ever annual bookings of \$26.8 billion, exceeding the top end of our guided range. We generated very strong cash flow of \$944 million for the quarter and \$2.48 billion for the year. We continue to return cash to shareholders through share repurchases, and we just announced our fourth annual dividend. We ended the year with more than 186,000 people. We have been steadily building a formidable leadership position, investing in our business and gaining market share. It's times like these with the uncertainty in the world markets when we are grateful for having built a strong, diverse and durable business.

We have transformed Accenture over the last five years, and this transformation serves us well. We have a globally diverse and durable business model. We have an operating model that is flexible and responsive. We live and work at the very heart of our clients' businesses and are part of their fabric, and we have tremendous financial strength, a rock solid balance sheet, strong cash flow, and other financial metrics which is unique, powerful, and distinctive. High performance is something we take seriously, not only for our clients, but for our company and our shareholders. Now let me turn the call over to Pam, who will provide more detail on our financial performance.

Pamela Craig - Accenture, Ltd. - CFO

Thanks, Bill, and hello, everyone. I'm pleased to tell you more about Accenture's strong fourth quarter and full year financial results. We had outstanding bookings, revenues, earnings, and cash flow for the quarter. This continued the trend of strong results across each of the quarters of our fiscal year. Let me provide additional detail behind the numbers in our income statement, balance sheet, and cash flow. Unless I state otherwise all figures are GAAP except the items that are not part of the financial statements or that are calculations.

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Net revenues for the fourth quarter were \$6 billion, an increase of 17% in US dollars and 10% in local currency over the period last year. We had strong revenue generation for the quarter, coming in right where we had expected to at the midpoint of our guided range. Consulting revenues were \$3.6 billion, an increase of 19% in US dollars and 11% in local currency. We achieved this strong growth even with slightly fewer work days in the quarter compared to last year. Outsourcing revenues were \$2.4 billion, an increase of 15% in US dollars and 9% in local currency. Net revenues for the full fiscal year were \$23.4 billion, an increase of 19% in US dollars and 11% in local currency. Consulting revenues were \$14.1 billion, an increase of 19% in US dollars and 11% in local currency. Outsourcing revenues were \$9.3 billion, an increase of 18% in US dollars and 11% in local currency.

In summary, these strong revenue results reflected our ability to navigate the market forces we faced in fiscal 2008 and deliver revenue growth at the upper end of and consistent with our objectives of 9% to 12% in local currency. Moving down the income statement, for the fourth quarter, gross margin was 31.7% compared with 31.2% in the same period last year, a more than 50 basis point expansion driven by higher contract profitability. Gross margin for the full year was 30.7%, consistent with fiscal year 2007, even though we absorbed higher comp increases and slightly lower utilization in fiscal 2008. SG&A costs for the fourth quarter were \$1.12 billion, or 18.6% of net revenues. This compares with \$945 million or 18.5% of net revenues in last year's fourth quarter. SG&A costs for the full year were \$4.15 billion or 17.7% of net revenues. This compares with fiscal year 2007 SG&A expense of \$3.52 billion or 17.9% of net revenues. A 20-basis-point reduction from fiscal 2007 and consistent with our objective to grow SG&A at a rate slower than our revenue. Operating income for the fourth quarter increased 22% to \$785 million reflecting a 13.1% operating margin. This compares with \$642 million, or a 12.6% operating margin in the same period last year, an expansion of more than 50 basis points driven by strong gross margins in the quarter. Full year operating margin was 12.9%, a 20 basis point improvement over fiscal 2007 and within our annual guided range of 12.8% to 13.1%.

Our effective tax rate for the fourth quarter was 31.8%. The year to date effective tax rate was 29.3%, consistent with our guided range of 28% to 30%. Income before minority interest for the fourth quarter was \$550 million, compared with \$431 million in the same period last year, an increase of 28%. For the fiscal year, income before minority interest was \$2.2 billion, compared with \$1.7 billion in fiscal 2007, also an increase of 28%. Diluted earnings per share for the fourth quarter were \$0.67, an increase of \$0.17, or 35% over diluted EPS of \$0.50 in last year's fourth quarter. We delivered \$0.13 of those through effective management of our business broken down as follows. \$0.07, or 14%, from strong revenue and operating growth in local currency, \$0.05 from a lower tax rate, and \$0.03 from a lower share count, partially offset by \$0.02 from lower interest income. The remaining \$0.04 came from favorable foreign exchange rates.

For the full fiscal year diluted earnings per share were \$2.65, also an increase of 35%, or \$0.68. It was our highest annual EPS ever and at the top end of the range we provided last quarter. \$0.25 or 13% growth came from strong growth in revenue and operating income in local currency, \$0.19 from lower tax rate, \$0.12 from a lower share count partially offset by \$0.02 by nonoperating income, for a total increase of \$0.54 that we generated in the business for the fiscal year. The remaining \$0.14 came from favorable foreign exchange rates.

Now let's turn to some key parts of our balance sheet. Free cash flow for the quarter was \$944 million, resulting from cash from operating activities of \$1.03 billion and property and equipment additions of \$87 million. This lower than expected level of property and equipment spending was primarily driven by effective space management within the global delivery network. For the full fiscal year free cash flow was \$2.48 billion, \$83 million over the top end of our latest projected range, resulting from cash from operating activities of \$2.8 billion and property and equipment additions of \$320 million.

Our DSOs, or days services outstanding, continued to drive strong free cash flow. DSOs were 37 days compared to 33 days at the end of August last year and continue to be industry leading. Our total cash balance at August 31st was \$3.6 billion compared with \$3.31 billion at August 31st last year. Just in case you are wondering we invest our cash largely in liquid overnight time deposits, US treasury repurchase agreements, and high quality overnight commercial paper. Debt remains inconsequential at \$8 million. Our balance sheet metrics continue to be very strong. For the 12 months ended August 31st our return on invested capital was 71%, our return on equity was 73%, and our return on assets was 19%.

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Let me turn now to share repurchase and dividend activity. In the fourth quarter we repurchased or redeemed 15.2 million share for approximately \$609 million at an average price of \$40.16 per share. For the full year we repurchased or redeemed 60.8 million shares for approximately \$2.3 billion at average price of \$37.20 per share. At August 31st we had approximately \$2.5 billion of share repurchase authority remaining. Today we declared a cash dividend of \$0.50 per share on all common shares payable on November 17th, 2008. This represents an \$0.08 per share or 19% increase over the dividend we paid last year.

Finally, let me give you the status of where we are with founder shares. I'm pleased to tell you that we are taking our final step to make July 2009 a nonevent. Effective today, we are accelerating the release of 61 million shares held by former senior executives by releasing transfer restrictions on those shares in roughly equal installments over the four quarters of fiscal 2009. Approximately two-thirds of these shares are Accenture SCA shares which are redeemable only by going through Accenture. Consistent with our historical practice we expect to primarily use cash for these redemptions. Excluding all founder shares our public float as of August 31st was 74%. We had a strong quarter and an equally strong and consistent full fiscal year. I'm very proud of our people and their tremendous ability to drive our business in a way that serves our clients and shareholders so well. Now Steve will give you some more detail on our operations.

Steve Rohleder - Accenture, Ltd. - COO

Thanks, Pam. Hi, everyone, and thanks for joining us today. We had a strong fourth quarter and a terrific year with growth across all areas of our business. Let me first take you through some of the highlights of the operating groups and the geographic regions and then I'll cover some of the trends that we're seeing in the growth platforms. As we look back briefly at the full year, all five operating groups recorded their highest ever annual revenues with three of the five, product, resources, and communications & high tech, turning in double-digit growth in both US dollars and local currency. We also had strong revenue growth in US dollars and local currency in all three geographic regions with revenues in Asia Pacific exceeding \$2 billion for the first time ever.

Now I will provide some detail on the fourth quarter. All five operating groups had solid revenue growth in US dollars with especially strong revenue growth and profitability from both resources and products. Resources had the highest overall growth in both US dollars and local currency, and this growth was delivered across all geographic regions and was driven by strong consulting growth in utilities and natural resources. I want to just touch on our financial services business. In Q4, revenues in financial services increased 10% in US dollars and 2% in local currency, which reflected a slight decline in consulting revenues.

The financial services market continues to change, and we're seeing a mix shift from consulting to outsourcing. Given the current situation in the financial markets, we've done a careful assessment of our financial services portfolio and believe that our business will be stable in FY '09 with a plan for modest growth. The reinvention of the financial services industry represents a significant opportunity for Accenture that's right in our sweet spot. Let me also comment on public service. In Q4 public service turned in its third highest bookings quarter ever and also grew revenues 14% in US dollars and 10% in local currency. While we're pleased with this growth, profitability was down and we're enhancing our focus on growing operating income and improving margin.

Looking at that time fourth quarter from a geographic perspective, Q4 revenues in Americas grew 17% in US dollars and 14% in local currency. We're very pleased with our strong growth in the United States, Canada, Brazil, and Argentina. In EMEA, a revenues increased 17% in US dollars and a modest 6% in local currency. We had very strong growth in Italy, France and Spain, offset by challenges in the UK. We are vigilantly managing our business across Europe where we have deep long-term client relationships and have taken actions to improve our performance in the UK. And finally in Asia Pacific revenues grew 24% in US dollars and 12% in local currency led by China, Japan and Singapore.

Now I will highlight some of the trends in our growth platforms as we enter the new fiscal year. In management consulting we're seeing strong demand in all service lines, especially in talent and organization performance, supply chain, and finance and performance management. We just launched a new service line, process and innovation performance, which combines Accenture's global process capabilities with the expertise from our acquisition of the [George] group. In outsourcing we continue

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to benefit from the breath and scale of our capabilities and offerings. Demand is strong for application outsourcing where we had a significant increase in bookings during FY '08. We're seeing continued activity in specific vertical BPO offerings as well as in finance and accounting and learning, and we're benefiting from the trend of clients, sourcing multiple processes and applications to a single provider.

In systems integration and technology, global ERP continues to be a hot area and we're seeing demand for security offerings, data center cost reduction, and application renewal in technology consulting. We continue the expansion of our global delivery network ending the year with 83,000 people. During the year we increased our capabilities in the GDN, expanding our SAP skills and adding new offerings. Finally, let me touch on a few operational metrics. Bookings hit record highs of \$7.67 billion in the fourth quarter and \$26.79 billion for the year. Consulting bookings totaled \$3.6 billion for Q4 and \$14.7 billion for the year. Q4 was our seventh straight quarter of consulting bookings in excess of \$3 billion. Outsourcing bookings were \$4 billion for Q4, our highest in more than four years, and annual outsourcing bookings reached \$12 billion.

Turning to people management, we ended the year with more than 186,000 employees, a net increase of 17,000 people over FY '07. Utilization was 84% for both the fourth quarter and the full year, and attrition was 15% for the fourth quarter and 16% for the full year. Managing supply and demand of our resources remains a top priority. We're optimizing operational performance by closely tracking and managing levers, including utilization, attrition and recruiting, and balancing them against the market demand. In closing I would like to make three points. First, as we move into FY '09, we remain focused on operational priorities which include further developing leadership positions in each of our three growth platforms, enhancing our differentiation through industry programs and assets and improving our cost to serve. Second, given the uncertainty in the marketplace we're redoubling our focus on closely managing our business and are prepared to take whatever steps are necessary to respond. And third, we believe that the challenging economic environment will provide us with new opportunities to help our clients improve their performance and transform their businesses. With that let me turn it back to Pam for our business outlook.

Pamela Craig - Accenture, Ltd. - CFO

Thank you, Steve. For our fiscal 2009 business outlook we plan to provide annual guidance in the areas we have in the past and we will update you on these measures quarterly. We will continue to provide quarterly guidance for revenue so that you have a basis for understanding our growth by quarter as we progress through the year.

Before I provide our fiscal 2009 business outlook, I would like to comment on how we are thinking about the impact of foreign currency in our outlook. Recently there's been significant volatility in foreign exchange rates. Assuming that the rates stay within the range that has occurred over the last couple of weeks, we would see a negative 2% to negative 4% foreign exchange impact on our results in US dollars for fiscal 2009. As we have done in the past we will update the foreign exchange assumptions for the next quarter when we give quarterly revenue guidance. We have years of experience managing our business in both local currency and US dollars. We are committed to driving local growth and managing local costs in the markets in which we operate in order to achieve maximum real growth and profitability in our business over the long term.

Starting with revenue, as we stated in our Q3 earnings call, we currently see a continuation of revenue growth on a trajectory of 9% to 12% in local currency. We have good momentum coming into fiscal 2009, based on recent bookings and our revenue run rate. We also have revenue visibility coming into the year that is very comparable to what we had in the last couple of years. With the uncertainty out there, we don't know what impacts there will be the further we go out in the fiscal year. So we believe we have our work cut out for us to get to the upper end of the range again in fiscal 2009. For the full fiscal year 2009, we are targeting new books to be in the range of \$26 billion to \$29 billion, which supports our revenue projections of 9% to 12% in local currency and reflects the annual foreign exchange assumption I just mentioned. For earnings per share we expect full year diluted EPS for fiscal 2009 to be in the range of \$2.85 to \$2.93. We expect operating margin for fiscal 2009 to be in the range of 13% to 13.3%, an expansion of 10 to 40 basis points. You should expect some fluctuations quarter to quarter as you've seen in the past. We intend to expand operating margin by maintaining our focus on improving contract economics. We will also be continuing our multi-year program of working SG&A down as a percentage of net revenue.

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Now let's turn to cash flow. For the full fiscal year we expect operating cash flow to be in the range of \$3 billion to \$3.2 billion, property and equipment editions to be \$415 million and free cash flow to be in the range of \$2.6 billion to \$2.8 billion. To complete the annual outlook for fiscal 2009, we expect our annual effective tax rate to be in the range of 30% to 32%. Finally, turning to the first quarter, we expect revenues to be in the range of \$6.15 billion to \$6.35 billion. This assumes a foreign currency impact of negative 1% to positive 1% compared to fiscal 2008 first quarter. Of course the markets continue to experience significant volatility, and this is impacting our clients differently, depending on what their business is and where they are in the world. Our job is to provide services that meet our clients' evolving needs and to drive our business for continued growth and profitability. With that here's Bill to close before we take your questions.

Bill Green - Accenture, Ltd. - Chairman, CEO

Thank you, Pam, and let me just recap quickly before we go to your questions. We're very pleased with our outstanding performance in the fourth quarter and the full fiscal year. We have continued momentum in our business. We're keeping a very close eye on events in the markets, with the uncertainty in the economic environment for anyone at this point to say they would be totally unaffected would lack credibility. Therefore, we continue to closely manage our business with an eye on navigating through any implications for Accenture.

Our services are right at the heart of our clients businesses and our people are able to adapt to changing circumstances so that we enhance our relevance to clients. This will allow us to keep building on our leadership position. We have a track record of delivering on our commitments, even in challenging times and we believe that history and our fiscal year '08 results are proof positive of that. Through careful planning and superior execution we are committed to delivering solid performance in 2009. Now let's go ahead and open it up for your questions.

Richard Clark - Accenture, Ltd. - Managing Director, IR

Thanks, Bill.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) And we first turn to the line of Rod Bourgeois with Bernstein. Please go ahead, your line is open.

Rod Bourgeois - Bernstein - Analyst

Hey, guys. Nice quarter again here. I wanted to inquire a little more about your outlook for fiscal '09. And I guess the specific question I have to start with is, are you as confident in the upper end of your fiscal '09 revenue guidance range as you were three months ago? I think Pam implied maybe not, but I wanted to clarify whether that was intended.

Bill Green - Accenture, Ltd. - Chairman, CEO

Well, Rob, this is Bill. We spent a lot of time of course looking at this obviously. We've given the day by day changes in the market place. And I think Pam said it right in her script. When we look at the upper end of the range we say we have our work cut out for us, and that's what we concluded. So we feel comfortable with the range, we feel good about it. But as she also mentioned, Q3, Q4, out there six months on the horizon, it's hard to read the tea leaves right now. That said we've got a lot going our way. There's a lot of energy and momentum around the business. and I think what we did in the fourth quarter continues to serve

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us well. So our mental model is we've got our work cut out for us to hit the high end of the range, and that's how we're going to get the 186,000 people focused on it and dial it up a little bit.

Rod Bourgeois - Bernstein - Analyst

All right. And Bill, just to be perfectly clear on that, that is a change in tone versus three months ago. And I'm wondering if that change is directly attributable to the credit market crisis that we currently have or whether there are other factors that are also involved in that in change in tone.

Pamela Craig - Accenture, Ltd. - CFO

Rod, I'm a little confused by you saying change in tone. What we said three months ago was we continue to see our revenues on a trajectory of 9% to 12% in currency. We didn't talk about where we'd be in the range.

Bill Green - Accenture, Ltd. - Chairman, CEO

Rod, if it sounds like it changed in tone to you, it isn't one to me. I go into every year in the same place. I see the thing that's going to be easy, and I always look at the high ends of the range as something we've got to work hard to do. And I have the same kind of mental model going into this year. You get a few things that break your way, the difference between the bottom and the top of the range close pretty quick.

And interestingly, in an environment of tremendous change, and this location creates incredible opportunities for Accenture. And when look at where some of the people have been focused in the last five or 10 work days, some of the people have been at these entities that are going to emerge the next-generation leaders as people figure out we're going to deal with the new environment, how are we going to do this? And that's the points that I was trying to make about flexibility and redeploying people to where the action and where the opportunities are. At the end of the day big change, particularly structural change, drives huge demand at Accenture, and our way of looking at this is where are those opportunities and how do we weave ourselves right into the heart of reinventing the business models in some of these companies or frankly some of these industries.

Rod Bourgeois - Bernstein - Analyst

Alright. Great. With your bookings guidance range for fiscal '09 have you somewhat padded that range to recognize the uncertainty that exists out there in the credit markets and so on?

Pamela Craig - Accenture, Ltd. - CFO

We look at the bookings range -- what we're focused on, Rod, is 9% to 12% in local currency. So you take into account the strong bookings in Q4, you take into account the FX headwind that we're looking at this point, the book to bill assumptions and mix to work and that's the range that gets generated out of that.

Rod Bourgeois - Bernstein - Analyst

Okay. Got it. And can you say anything about your pricing plan for fiscal '09? You normally institute some pricing increases at this time of the year, and then also your plans for salary inflation across your workforce.

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Bill Green - Accenture, Ltd. - Chairman, CEO

Yes, the salary inflation, or the salary increases were less than the prior year, Rod. Basically what we've done in pricing, as we did last year we instituted rate increases in June, and we've applied those into the pipeline and into the new works. So it it's business as usual if you will. We are going to roll out some new tools and some more training into different parts of the world for our pricing initiative, but it's going to be more business as usual.

Rod Bourgeois - Bernstein - Analyst

All right. But are you planning for a price increase for fiscal '09?

Bill Green - Accenture, Ltd. - Chairman, CEO

We've already applied it.

Pamela Craig - Accenture, Ltd. - CFO

Yes.

Rod Bourgeois - Bernstein - Analyst

What is that number that you are seeing as the year plays out at this point?

Bill Green - Accenture, Ltd. - Chairman, CEO

We don't release individual pricing increases like that, just suffice to the say that we implement it in June, like we did the prior year, and the teams are working at putting it into their new sales opportunities and readjusting their existing work to reflect that.

Rod Bourgeois - Bernstein - Analyst

All right. Thanks, guys.

Bill Green - Accenture, Ltd. - Chairman, CEO

You bet.

Operator

Next we turn to the line of Adam Frisch with UBS. Please go ahead.

Adam Frisch - UBS - Analyst

Thanks very much. And I'm not usually one to make a big deal about management execution or make a whole lot of compliments on calls, but just become more ornery in my later stages, but you guys really deserve some credit, Bill, Pam and Steve for getting you guys through this year and positioning the company really well. I don't think that's reflected in the stock but I did want to

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acknowledge it on the call. Just to -- but after -- your execution has been great. I don't think there should be any doubts about your outlook because of your execution but just in case some people do have doubts could you describe the budgeting process that you just recently went through in order to establish your guidance, any added scrutiny or potential sensitivity analysis that you put into it, because you know people are going to say, wow, this guidance looks pretty good. How viable is it? Maybe if you could just go through the process a little bit that would be helpful.

Bill Green - Accenture, Ltd. - Chairman, CEO

Well, let me start, then Steve or Pam. Of course, we've been living this almost day to day, and obvious in preparation for this call it's a very important one, we take it very seriously, credibility means everything. First Adam, thank you for your compliments because I've been at the other end of the sharp stick enough times and am delighted to get the recognition. We as a company and the men and women here feel good about it. And I said last year, you got to -- in rocky times, and this last year, our '08, the environment we were operating in was not smooth sailing. But we drove the business, right, we made things happen to get the results. When we look at '09, we look at that time same way. It's not going to all fall into place. It's not even going to be pretty. The question is how do you drive the business, how do you get right people in the right place, have the right offerings, redeploy the workforce and all that, and not lose sight of the opportunities that change and challenge are going to bring to the firm? And then be grateful for the fact that we have client relationships that we eased for more than a decade, and, I mean, we aren't the fat, we're the bone when it comes to these companies. So we start there.

The budgeting process we put in place in the spring and early summer, then we continue to take our temperature, week by week as it went through until, I think, what two days ago, we did our last state of continues call, looking at '09, going operating group by operating group, country by country, looking at the business, triangulating the opportunities we see in the pipeline, to the momentum that we have in the business, to the actions we're taking to catalyze demand and create future pipeline around the place, and what we see in terms of the market. And when we stand back from there we use a lot of rigor. We feel comfortable with the 9% to 12%. That's the thing we continue to test and test and test. And the other thing is we know how to run the place. And the question is going to be as the year goes on, if you need to make mid-course corrections in order to preserve and enhance the profitability, what are the actions?

You remember last year, or -- yes, for '08 in fact, we talked about levers. We talked about scenario planning we had done if we faced some headwinds from somewhere. We've continued to do that, go through with it our board and look at what we need to do to take actions to make corrections, and Pam and Steve lived that, and we're sort of exactly where we were last year. That said, as we look ahead, I think Pam said it right, we have the visibility or better than we had last year, we have the confidence or better than we had last year, and yet we know that there are going to be challenges out there that can't be predicted right now. And so that means we just need to double our vigilance in terms of staying on top of things. Pam, you just might want to add a little to that.

Pamela Craig - Accenture, Ltd. - CFO

You were very complete, Bill, but I think the bottoms up process starts in the spring through the summer, over and over, and we're constantly checking in from the top down. We did a deep dive on the plan two weeks ago, this week, as Bill mentioned, we did a full check in terms of the state of the business and of course the FX stuff we were wrestling around with this week as well just to make sure we could give you our best view based on what's been happening this month.

Adam Frisch - UBS - Analyst

What is different this time around? Because if I'm someone who maybe doesn't know Accenture all that well, and I'm just thinking macro and stereotypes, the economy getting worse pretty dramatically in the US, obviously in western Europe as well, and the UK has already turned and things like that. And if my mentality is, again, stereotypically, consulting firms get crushed in that

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kind of market, not knowing what you have in terms of the GDN or the offers or all that. Why are you positioned this time around better where you're going to go through a slow down in what would traditionally be a really difficult market?

Bill Green - Accenture, Ltd. - Chairman, CEO

I guess there's a couple of things, Adam. One is I think we proved last year that we know how to operate the place in the face of a lot of challenges. Now next to today's challenges they might look minor but when we were all facing them particularly our investors looked at the environment we were in last year, I think people had some concerns about how do we navigate this, and I think we've done it. And so we start with that then we look at where we have opportunities in the business to continue to be better at what we're doing. The thing we bring to the table, though is our diamond client relationships, which have spanned the test of time, where we've woven ourselves into the fabric. The mix of our business that's outsourcing, and the continued new bookings that we post up in that business. And we look at the demand in consulting which continues, because change creates opportunities and challenges for people, and our consulting bookings for the last, I think seven quarters, have been over --

Pamela Craig - Accenture, Ltd. - CFO

\$3 billion.

Bill Green - Accenture, Ltd. - Chairman, CEO

\$3 billion, right. And our consulting business as we look ahead continues to be like that. I guess I would make this distinction, it's not boutique consulting. Right? It's solving and fixing business problems and putting in place new systems and processes and strategies that are going to help people survive in the environment they're faced with. And in some areas of the business, the challenges in the economy have accelerated the demand that we have had in our business as opposed to just shutting it off or slowing it down.

Adam Frisch - UBS - Analyst

Okay. Thanks for that. Two quickies for Pam, then I will get off. First, on the cost line, any areas you could cut if you needed to that will not threaten top-line growth, things like internal travel cost, training, and things of that nature? The second one is why such a big increase in free cash flow next year if outside is relative to growth in other areas?

Pamela Craig - Accenture, Ltd. - CFO

Well, first of all on the cost line, we are ever vigilant on that, Adam, and we will be this year as well so that we will be managing costs in local currency, and then we will be doing whatever we can beyond that to make sure that the profitability at the bottom line is as good as it can be. So I think that's always an opportunity, and travel, we're all over that. Training, I mean, we send our people to training, of course, but we will be managing those costs. That's what you do to manage the business. The other question was on --

Adam Frisch - UBS - Analyst

Free cash flow.

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Pamela Craig - Accenture, Ltd. - CFO

-- free cash flow. And your question was that it's --

Adam Frisch - UBS - Analyst

It just seems to be growing faster than some other areas of the P&L. I don't have -- I'm traveling, so I don't have the numbers in front of me. So forgive me. It seems like it's a number that's higher.

Pamela Craig - Accenture, Ltd. - CFO

\$2.6 billion to \$2.8 billion which is 5% to 13% over this year -- over this past year. And this is a good growth rate. Does it reflect a slight, a very slight uptick in DSOs, as sort of being the main component. But, yes, we believe it is strong cash flow.

Adam Frisch - UBS - Analyst

Okay, thank you.

Operator

Next we turn to the line of Bryan Keane with Credit Suisse. Please go ahead.

Bryan Keane - Credit Suisse - Analyst

Yes. Hi. I know we talked about this, but I know I'm going to get questions on it. So it sounds like you're confident in the 9% to 12% in local currency, just as confident as you were last quarter when you announced that.

Bill Green - Accenture, Ltd. - Chairman, CEO

Yes.

Bryan Keane - Credit Suisse - Analyst

So no hesitations, no worries that you are going to fall below that range or any issues out there?

Bill Green - Accenture, Ltd. - Chairman, CEO

No, no, we went in to the preparation for this earnings, with those questions, right, because of what's happened even in the last 10 work days in the market. Right? I mean, you can't just sit there and say, gee, we did this two months ago or three months ago and life is the same. Life is not the same, right, for a lot of people. So the reason we go through the state of the business and we take the business apart brick by brick and look at it is just for that, and we came back and as we reassembled our plan, and we do this from the bottom up, from the clients up, this isn't a top-down thing. When we reassembled the plan we landed right back in that space, and we felt good about it. That said, we also know that we need to be particularly vigilant, and that's why we made some comments in our remarks here about, yes, we see the 9% to 12%, we know what we have to do to get it. That said, crazy stuff could happen, and if it does, do we know what it is we would do in order to preserve the economic outcome for the firm? And then we got comfortable with that. So I think the thing that's different between a quarter ago and now is us

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really looking hard at the actions we would take if there's some uncertainty that is impossible to predict today. And when we got comfortable with that we were comfortable with the 9% to 12% and the other guidance that we put forward.

Bryan Keane - *Credit Suisse - Analyst*

Okay. And then in an economic downturn Bill, you guys are still signing record bookings, especially in consulting. Is it fair to say that you guys are taking market share gains?

Bill Green - *Accenture, Ltd. - Chairman, CEO*

Well we believe, and our statistics that our strategy group does, show that we're taking market share. The question is are you taking the right share. We're more pleased that we're taking the right business as opposed to just business. There continues to be a lot of business out there, but I guess I would make this distinction. Right? There's certain business out there that's, but I guess I'd make this distinction. There's business out there, you come in, you put your proposition on the table, and if you have a better price than the other guy you get to win. The business that we focus on is we build business cases that have economic outcomes for clients, and therefore they invest in them. And we're going to have to work hard at doing that this year. But on balance, we feel good about where we are. That said, and I will go back to my first response, we do think we're going to have to pedal hard, but it's something that we know how to do. What's important is keeping very close to the clients, because that's what keeps us close to the business. And if we do that we know we will be able to be flexible enough to find the revenue, find the profit and deliver the value for our clients.

Bryan Keane - *Credit Suisse - Analyst*

And Steve, I guess just the Indian IT firms have seen a slow down, yet Accenture hasn't really seen that in systems integration. I would just love to get your thoughts on why that is.

Steve Rohleder - *Accenture, Ltd. - COO*

I think most of our growth is happening in the global SAP, Oracle, and ERP space. And I think when, to build on what Bill said, when these companies are looking to spend money on transformational SI work to standardize their business processes across the globe, there's only a few firms that can do that, and frankly that's driving our growth.

Bryan Keane - *Credit Suisse - Analyst*

Okay. And then just last question is for Pam. I guess what's the impact to your earnings if currency becomes a drag? Is it a negative, a detriment to earnings?

Pamela Craig - *Accenture, Ltd. - CFO*

Well, I mean, if everything flows through we would have, I don't know, say about \$0.01 per percent. But mind you, we're going to manage the cost, too. So we've done this before, we've had a business that's been in multiple currencies for many years so we know how to do this. And so you can expect that we will do that.

Bryan Keane - *Credit Suisse - Analyst*

And the EPS range that we have out there that takes into account the current kind of exchange rates we've seen over the last couple weeks?

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Pamela Craig - Accenture, Ltd. - CFO

It reflects the negative 2%, the negative 4%, that I mentioned we just used as an assumption based on what we've seen over the last couple weeks.

Bryan Keane - Credit Suisse - Analyst

Okay, beautiful. Congratulations. Super job.

Bill Green - Accenture, Ltd. - Chairman, CEO

Thanks, BrYan.

Operator

-- line of George Price, Stifel Nicolaus. Please go ahead.

George Price - Stifel Nicolaus - Analyst

Thanks very much for taking a couple of my questions, and let me absolutely throw my congratulations into the ring for the job that you guys have done. We've kind of hit I think the tone part enough times, but I would like to dig into some of the specific parts of the business, and what's moving a couple of layers down. You are seeing great growth in US and North America despite the fact that arguably we've gone through a very difficult year here. Europe is more recently starting to see some issues, you have already seen a deceleration there, and certainly relative to the US. Can you give us a little color maybe what's driving that exactly and maybe why Europe is seeing so much incremental weakness versus the US?

Steve Rohleder - Accenture, Ltd. - COO

Yes. George, it's Steve. I will give you some context here. As I said in the opening remarks, we were really happy with the growth in Spain, Italy, and France, and frankly Germany and the Nordics are kind of holding their own, but where we saw the softness, to answer your question directly, is in the UK, and it's specifically focused on our public service and our financial services areas. We've recognized the softness, we've got some programs in place to begin to generate demand, and we got the executive team focused on taking the our activities and our work to another level there. So it's going to take some time. We recognize that the business is soft there. But we're going to work through it.

George Price - Stifel Nicolaus - Analyst

I guess can we specifically correlate the -- what's happening when you are talking about the UK with a lot of what we are seeing on the financial vertical, given the dependence, particularly on one area?

Steve Rohleder - Accenture, Ltd. - COO

Some of it. Some of it is because we have such a big concentration of financial services in EMEA and the UK. But I would be remiss to just lay it all at the feet of financial services, because that's not the case. We're taking a broad view of our business there, and making sure that we're taking the actions to build our pipeline, maintain our client relationships and just drive the business in the UK rather than having the economic conditions drive us.

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Bill Green - Accenture, Ltd. - Chairman, CEO

Yes, I would just want to add, if could I, on this financial services thing, I look today at our top 20 financial services clients only two of the names of the 20 have been in the news. And so there's people that all their whole top five have been in the news, but not ours. And so I'm sure I pressed our guys that we should be more penetrated in some of these companies that we aren't, but now we're grateful for it.

But at the end of the day, if you look and read closely Steve's comments on financial services, given what they faced, they turned in a pretty good result. And as a result, when you look at the names and then you turn and say what is the impact on Accenture, frankly it's been modest. And it's more in the dislocation and hopefully relocation than things that were started that are no longer going any more. And so I think whether you are looking at the UK or whether you are looking broadly at financial services across the globe, I think we're holding our own pretty well in that market.

George Price - Stifel Nicolaus - Analyst

Just going back to North America, I guess specifically the US, can you give a little bit more color on what's been driving the really strong growth that you have seen there? I know you mentioned there was a big shift towards outsourcing over the last couple quarters, but I guess anything beyond that?

Bill Green - Accenture, Ltd. - Chairman, CEO

Yes, George, the shift from consulting to outsourcing is primarily in financial services as you would expect in the US. Strong growth in consulting in consumer products for the product operating group and in utilities and energy in the resources group, and again, that consulting group is ERP and systems integration work. But I think that it's a great balance, both consulting and outsourcing, as we look at North America. So I think the portfolio is really servicing us well here. We have one group that's experiencing this shift in outsourcing while the other is seeing an increase in strong, steady growth in the consulting area. Public service is steady as well. They had good strong growth in consulting as well, so it gives you a little color about the operating units in the US.

George Price - Stifel Nicolaus - Analyst

Okay. And one last one for Pam, just very good cash flow expectations for '09, he is specially out of the gate. Are there any -- are there any one-time impacts in there, anything to call out less cash taxes in fiscal '09 versus fiscal '08 for some reason? Anything like that?

Pamela Craig - Accenture, Ltd. - CFO

Nothing really out of the ordinary, no.

George Price - Stifel Nicolaus - Analyst

Okay. Alright. Thanks very much.

Bill Green - Accenture, Ltd. - Chairman, CEO

Thanks, George.

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Operator

Next we turn to the line of Tim Fox with Deutsche Bank.

Tim Fox - Deutsche Bank - Analyst

Hi, thank you, good afternoon. First question kind of a two-part question around the performance on outsourcing bookings. Can you dive into that just a little bit more? I know you're talking about a mix shift from consulting to outsourcing but those numbers were certainly well ahead of our estimates and well ahead of the street. Is there anything underneath the covers there from a geographic perspective or vertical perspective that's really driving that outperformance?

Bill Green - Accenture, Ltd. - Chairman, CEO

Well, I would say that the bookings performance is primarily a result of the work that we've done in the prior two quarters to be very selective about what we're going after, Tim, and to make sure that we're focused on delivering it. In terms of specific emphasis, I'd say application outsourcing probably drove most of it. There were a few what we call bundled deals, where you had infrastructure outsourcing and application outsourcing bundled together, but by and large it was application outsourcing. A few BPO sales in the [F&A area, but other than that that's kind of the focus. And geographically, I would say it was actually pretty balanced between North America or the Americas and EMEA, with a smaller increase in Asia Pacific.

Tim Fox - Deutsche Bank - Analyst

Okay. And the follow-up on the outsourcing bookings for Pam, your guidance for EBIT margins, I've got the right numbers here, look like they will be the highest in five or six years at the midpoint there. And I guess the obvious question is, with outsourcing bookings being so strong, the notion is that that can be a drag on overall margins. Can you talk a little bit about how the bookings may prove to flow over fiscal '09? Are you expecting outsourcing versus consulting that mix to change much and how that may impact margins because that's a pretty good guidance range?

Pamela Craig - Accenture, Ltd. - CFO

Yes. We're not expecting our mix to ultimately change much as all, and we are expecting improved outsourcing profitability in '09.

Tim Fox - Deutsche Bank - Analyst

Okay. Great. Next question was around hiring plans. I don't know, Steve, if you've mentioned what your plans are for fiscal '09 as far as overall headcount growth and are you planning on keeping utilization rates in and around that 84% range that you've been successful at this year.

Steve Rohleder - Accenture, Ltd. - COO

Yes, utilization, we're targeting where it is, maybe slightly higher, but in that range. I think that from a headcount standpoint what you ought to rely on is that we're probably going to be flat this year. Our estimates show basically to deliver our plan with the attrition levels that we have we'll maintain about the same number of hires that we had this year.

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Tim Fox - Deutsche Bank - Analyst

Okay. And then just lastly, resource has obviously been a great tail wind for a number of quarters here. Just wondering, has there been any weakness at all from pipeline conversion or the outlook there, utilities have been strong, but given the dislocation that we're seeing that in market any signs of weakness around resources?

Steve Rohleder - Accenture, Ltd. - COO

Well, they have to replenish their pipeline since they had such a big year, so they're working hard to do that. But basically they're watching China, they're watching China to make sure that we don't see anything crazy there, but I think we ought to expect that they are going to continue to execute the way they have.

Tim Fox - Deutsche Bank - Analyst

Great. I will throw my congratulations in, too. Appreciate it.

Steve Rohleder - Accenture, Ltd. - COO

Thanks.

Richard Clark - Accenture, Ltd. - Managing Director, IR

Operator, we have time for one more question.

Operator

Thank you. Our final question comes from the line of Julio Quinteros with Goldman Sachs. Please go ahead.

Julio Quinteros - Goldman Sachs - Analyst

Great. Thanks. Real quickly, Pam, on the founders shares getting bought back those are basically all coming out of the share count, kind of think about the basic share count, once you guys are done buying those share back?

Pamela Craig - Accenture, Ltd. - CFO

Yes. What we're doing, Julio, we are doing the final release, which means they become unrestricted but whether or not we buy them back is up to the holders. So they would present them to us in our quarterly windows and we would then buy them back or redeem them. But they don't come out of --

Julio Quinteros - Goldman Sachs - Analyst

You don't have a sense on how many would get handed back to you at this point, but they would become unrestricted on sounds like a pro rata basis throughout the whole year.

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Pamela Craig - Accenture, Ltd. - CFO

Yes. It really just depends on that, if they hold or sale, and certainly some of them will be redeemed.

Julio Quinteros - Goldman Sachs - Analyst

Got it. If you are buying them back they are definitely coming out of the share count what I was trying to confirm.

Pamela Craig - Accenture, Ltd. - CFO

Correct, yes.

Julio Quinteros - Goldman Sachs - Analyst

Got it. Okay. Got it. Okay. But this is not an auction process or anything along those lines. It's just a matter of them deciding they want to do it.

Pamela Craig - Accenture, Ltd. - CFO

That's right. When they're unrestricted it will be market price.

Julio Quinteros - Goldman Sachs - Analyst

Okay. Great. And then on the operating margin target I wanted to come back to the point you made a second ago about the 10 to 40 basis points of operating margin expansion. With the increased contribution from outsourcing is it correct you are saying even if outsourcing is growing faster than consulting you are not expecting much of a mix shift in the revenue contribution of consulting versus outsourcing?

Pamela Craig - Accenture, Ltd. - CFO

That's right, we're not expecting much of a mix shift at all in the revenue, yes.

Julio Quinteros - Goldman Sachs - Analyst

Okay, good. And then going back to your bookings guidance, is this the first time that you guys have currency adjusted your bookings target? Just looking back through the last set of notes. And I just can't recall, but the growth rate that you guys have in the bookings for next year, the \$26 billion to \$29 billion, that also takes into account the same drag of the two to four percentage points for all of fiscal year '09, is that correct?

Pamela Craig - Accenture, Ltd. - CFO

It does. We just felt that based on the recent volatility and the size of it that it was prudent to do that.

Julio Quinteros - Goldman Sachs - Analyst

Okay. Got it. And at the same 2% to 4% that you are applying to the revenue model?

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Pamela Craig - Accenture, Ltd. - CFO

Yes.

Julio Quinteros - Goldman Sachs - Analyst

Got it. Great. And then maybe just to shift gears real quickly to Steve on the operating sort of metrics in terms of top two or three things that you really think you need to focus on, if you wouldn't mind just addressing Europe one more time, then the financial services sector. How do both of those come back as you look at fiscal year 2009 from a growth perspective? What would be the key drivers?

Steve Rohleder - Accenture, Ltd. - COO

I think as I said in the comments, Julio, financial services, we kind of expect modest growth. I think Bill's touched on the opportunities that we have, is that industry restructures itself. I think it plays right into our hand in terms of consulting and transformational change. So I think we've laid that out. In terms of Europe, we're watching it very closely. We're watching Continental Europe very closely. Each one of the geographic units have pipeline, revenue, and chargeability goals by quarter that we're monitoring very closely. So that's no reason for alarm but we are going to continue to watch it. And what was your first question? I was looking backwards.

Julio Quinteros - Goldman Sachs - Analyst

Sorry. Just to finish off on the geographics did you guys talk at all about Germany real quick? I know you said UK was weaker, Spain, France sounded better. Did you mention Germany?

Steve Rohleder - Accenture, Ltd. - COO

No, I didn't.

Julio Quinteros - Goldman Sachs - Analyst

How is Germany doing?

Steve Rohleder - Accenture, Ltd. - COO

I said they're holding their own right now in response to a question.

Julio Quinteros - Goldman Sachs - Analyst

Okay. Got it. First question on the -- just more on the operating metrics in terms of what levers you have left to pull. I think of the traditional ones, utilization, pricing, that kind of stuff.

Steve Rohleder - Accenture, Ltd. - COO

Yes, utilization obviously is one. We're watching the pipeline, the conversion of that pipeline very closely. We're also watching the hiring process, because usually in the fall we do bring in a number of people so we don't want to get ahead of ourselves in

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terms of too many people So we're calibrating all of those things. We're also -- and Pam mentioned this and I think it's important to bring up again that SG&A is a continued focus for us, and we're pulling those levers to make sure that we're not overspending in the back office and that we're pushing the same initiatives that we had in FY '08, but extending them into '09. So those -- plus, our operational efficiency and making sure we're driving our contract metrics. So all of those are the levers that I'm watching.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay. And then from a headcount growth perspective, when you said flat target for the year you meant 17,000 versus the 17,000 you just added this year?

Steve Rohleder - *Accenture, Ltd. - COO*

No, we hired about 54,000 people in the year. The net, when you factor in attrition, was 17,000. But we hired about 54,000, and I expect we'll probably be flat at that number for FY '09.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay. Got it. Great. And then just to confirm, your total GDN headcount you said was 83,000?

Steve Rohleder - *Accenture, Ltd. - COO*

Yes.

Julio Quinteros - *Goldman Sachs - Analyst*

All right. Finally, can I finish up with Bill on the landscape, I guess post the HP EDS. Any really changes out there in the landscape from a competitive perspective? Are you seeing anything from a posture, aggressiveness?

Bill Green - *Accenture, Ltd. - Chairman, CEO*

Really nothing. I think we see people being pretty rational out there. It's competitive it always is and it probably will get more so, but at the end of the day we certainly haven't seen anything that has been catalyzed by that transaction. And I think everyone is in their relative places in the market and just weigh on the best opportunities. We forecasted there might -- we thought there might be more change than there has been and I think everyone is kind of hunkered down, digging in, driving their business forward, which is exactly what we're doing. Let me say a couple things in closing, if I will. we had another very strong quarter and frankly an outstanding year. We're delighted with our results. We're focused on executing growth plan, staying relevant to our clients, strengthening our global franchise, and continuing to differentiate Accenture in the marketplace.

As I mentioned earlier, we have a unique business model and we've built a very strong, well positioned company. We continue to operate with focus, discipline, and flexibility, which is particularly important in the current environment. All of us at Accenture, we live in the markets, we work closely with our clients to help them navigate the changing landscape. We remain confident in our ability to act and react to enhance our position with each and every one of them. In disruption and change we see opportunity, opportunity to further help our clients with high performance, opportunity to further differentiate ourselves from others, opportunity to expand market share revenue and profit, and opportunity to redefine our industry.

And I would like to thank the more than 186,000 men and women of Accenture whose dedication day in and day out is what enables us to deliver tremendous value to our clients as well as our shareholders. Thank you very much for joining us on the

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call today. We appreciate your continued support, and we look forward to seeing you at our annual investor and analyst conference on November 12th in New York.

Operator

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