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Conference Call Transcript

ACN - Accenture's Q3 Fiscal 2011 Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Accenture's third-quarter fiscal 2011 earnings call. At this time, all participants are in a listen-only mode. Later, there will be an opportunity for questions. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, KC McClure, Managing Director of Investor Relations. Please go ahead.

KC McClure - Accenture – Managing Director, Investor Relations

Thank you, Rochelle, and thanks, everyone, for joining us today on our third-quarter fiscal 2011 earnings announcement. As Rochelle just mentioned, I'm KC McClure, Managing Director of Investor Relations. With me today are Pierre Nanterme, our Chief Executive Officer, and Pamela Craig, our Chief Financial Officer. We hope you've had an opportunity to review the news release we issued a short time ago.

Let me quickly outline the agenda for today's call. Pierre will begin with an overview of our results. Pam will take you through the financial details, including the income statement and the balance sheet, along with some key operational metrics for the third quarter. Pierre will then provide a brief update on our market positioning and progress against our growth strategy. Pam will then provide our business outlook for the fourth quarter and full fiscal year 2011, and then we will take your questions, before Pierre provides a wrap-up at the end of the call.

As a reminder, when we discuss revenues during today's call, we're talking about revenues before reimbursements, or net revenues. Some of the matters we'll 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 news release and discussed under the Risk Factors section of our Annual Report on Form 10-K and other SEC filings.

During our call today, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of those measures where appropriate to GAAP in our news release or 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 Pierre.

Pierre Nanterme - Accenture – Chief Executive Officer

Thank you, KC. And thanks, everyone, for joining us. I'm very pleased to tell you about our excellent third-quarter results, which demonstrate the strong momentum we have seen in our business. Here are a few highlights:

- We generated outstanding new bookings of \$7.1 billion, our highest in 11 quarters. Consulting bookings were \$3.7 billion, and outsourcing bookings were \$3.4 billion.
- We grew revenues 15% in local currency, to more than \$6.7 billion, our highest quarterly revenues ever.
- Earnings per share were \$0.93, also a quarterly record. This represents an increase of \$0.20, or 27%, over Q3 last year.
- We grew operating income 18%, to \$949 million, and delivered operating margin of 14.1%.
- We continue to have a very strong balance sheet, with a cash balance of \$5.3 billion.
- And we continued to return cash to shareholders through share repurchases and the payment of our semi-annual dividend.

We are particularly pleased that our growth is broad-based across industries, growth platforms and geographies, both mature and emerging. And given our strong year-to-date performance, we have raised our outlook for revenues, EPS and cash flow for the full fiscal year.

Now, I will turn the call over to Pam, who will provide more detail on the numbers.



Pam Craig - Accenture – Chief Financial Officer

Thank you, Pierre, and thanks to all of you for listening today. I am pleased to tell you more about Accenture's fiscal year 2011 third quarter financial results. We delivered very strong quarterly revenues, hitting a new record. In fact, each of our five operating groups hit a new quarterly high, driven by, as Pierre just said, broad-based demand. We also achieved record-high EPS results for the quarter, as we continued to drive and sustain profitable growth.

Now, let's get to the numbers. Unless I state otherwise, all figures are US GAAP, except the items that are not part of the financial statements or that are calculations.

New bookings for the quarter were \$7.1 billion and reflect a positive 6% foreign exchange impact compared with new bookings in the third quarter last year. Consulting bookings were \$3.7 billion and outsourcing bookings were \$3.4 billion.

Let me give you some details, first in Consulting. In Management Consulting, clients are hiring us to help them target and action opportunities to deliver value in their operations — to reduce their costs, to grow their top lines through sales and services differentiation, to implement improved compliance and risk management, and to integrate operations they acquire.

In Technology Consulting, our unique position in the technology ecosystem continues to serve us well. Clients value our independence and track record. We are helping our clients to rationalize their infrastructures through virtualization and consolidation and to build IT strategies for transformation and streamlining of their global operations.

Systems Integration bookings continued to reflect strong demand for ERP, particularly to support global expansion and to extend ERP for data management and analytics. We saw an uptick in bookings for application modernization, both replatforming and replacement. Client focus is also increasing around Web development and new technologies to support growing wireless services demand. In addition, software-as-a-service demand is building in key functions such as sales management and ERP.

Turning to Outsourcing: In Technology Outsourcing, demand remains strong, as clients continue to be focused on reducing the costs of their legacy systems. At many of our clients, we are being asked to do more, in enhancements and add-on work. Also, some clients are now integrating newer mobile technologies and upgrading their networks and data centers.

Finally, BPO bookings in Q3 reflect continued demand for both our horizontal offerings, especially finance & accounting, and procurement, and for our industry-specific solutions, particularly health.

Now, turning to revenue, net revenues for the third quarter were \$6.7 billion, an increase of 21% in US dollars and 15% in local currency over the same period last year. These revenues reflected a foreign-exchange impact of positive 6% compared with Q3 last year. These revenues were above our guided range of \$6.3 billion to \$6.5 billion, a range that had assumed a foreign-exchange impact of positive 4%. Adjusting for actual exchange rates, we are \$120 million higher than the top end of the range we provided in March. This was partly driven by Japan results that were better than we expected then.

There was strong double-digit revenue growth, and-record high quarterly revenues, across many dimensions of our business. Record consulting revenues were \$3.97 billion, an increase of 23% in US dollars and 17% in local currency. Record outsourcing revenues were \$2.75 billion, an increase of 17% in US dollars and 12% in local currency.

I'll take you through some details by operating group. Resources revenues grew 22% in local currency and were dominated by very significant growth in consulting. Consulting growth continued to be led by demand for ERP programs in many parts of the globe. Outsourcing revenues continued to be driven by operational effectiveness in IT and financial business processes.

In Financial Services, revenues grew 19% in local currency and reflected strength in both consulting and outsourcing. Our clients are continuing to invest in replacing their core systems and are also generating continued demand for post-merger integration, operational effectiveness, risk and regulatory services, and global operating models.

Communications & High Tech revenues increased 16% in local currency and reflected balanced consulting and outsourcing growth around the world. Consulting demand continues to be driven by a focus on operational improvements, improving customer service, and supporting new products and services through provisioning platforms. Strong outsourcing revenue growth reflected clients' continued focus on improving their operations, particularly in supply chain, procurement and finance.



The Products operating group had local currency revenue growth of 14%, that was driven by very strong and well-balanced growth across the Products industries in consulting. ERP and infrastructure offerings provided the foundation of the growth, which also reflected demand for operational effectiveness, supply chain, and sales and customer solutions.

Finally, Health & Public Services revenues increased 3%, driven by Health, where we continue to experience very strong demand for our health offerings, including connected health and electronic medical records. Public Service revenues declined, due to continued budget pressure and economic uncertainty, particularly in US state and local, and several countries in EMEA and the Americas. Modest growth continued in US federal. We expect Public Service to remain challenged. Our repositioning of the Public Service business continues and will continue over the medium term.

Moving down the income statement, gross margin was 34.4%, compared with 34.7% for the same period last year, reflecting a 30-basis point decrease. Our contract profitability improved during the quarter, as we made strides in improving pricing and resource mix on our contracts.

Sales and marketing expense was \$832 million, or 12.4% of net revenues, compared with \$714 million, or 12.8% of net revenues, for the third quarter last year, a decrease of 40 basis points.

General and administrative expense was \$527 million, or 7.8% of net revenues, compared with \$410 million, or 7.4% of net revenues for the third quarter last year. Included in G&A for this quarter was a provision for litigation matters in the amount of \$75 million, which had a negative impact of 110 basis points, offset by management of other G&A costs at a growth rate lower than revenues, for an impact of positive 70 basis points. We booked the provision as part of our ongoing process of assessing litigation matters and making adjustments when appropriate.

Operating income was \$949 million, reflecting a 14.1% operating margin. This compares with \$804 million, or 14.4% operating margin, in the third quarter last year, a decrease of 30 basis points.

Our effective tax rate for the quarter was 27%, compared with 29.8% for the third quarter last year. This difference was primarily due to a number of factors that impact the geographic mix of income, partially offset by a net increase in reserves related to ongoing tax audits.

Net income was \$699 million for the third quarter, an increase of 24% over the same quarter last year. Diluted earnings per share for the quarter were a record \$0.93, an increase of 27% compared with \$0.73 in the third quarter last year. The \$0.20 increase is made up of \$0.08 from higher revenue and operating results in local currency, \$0.04 from a lower effective tax rate, \$0.04 from favorable foreign-exchange rates, \$0.03 from a lower share count, and \$0.01 from higher non-operating income.

Now, let's turn to some key parts of our cash flow and balance sheet. Free cash flow for the quarter was a record \$1.24 billion, resulting from cash generated by operating activities of \$1.35 billion, net of property and equipment additions of \$113 million.

Turning to DSOs, our days services outstanding were 32 days, consistent with 32 days in the second quarter and up from 30 days at the end of last fiscal year.

Our total cash balance at May 31 was \$5.3 billion, versus \$4.8 billion at the end of August.

Now, turning to some key operational metrics, we ended the quarter with global head count of more than 223,000 people, with close to 130,000 people in our global delivery network. In Q3, our utilization was 85%. Attrition, which excludes involuntary terminations, was 15%, compared with 14% in Q2. Lastly, we are on track to hire at least 66,000 people around the world this year.

Before I turn things back to Pierre, I will comment on our ongoing objective to return cash to shareholders through share repurchases and dividends. On May 13, 2011, we made our second semi-annual dividend payment for fiscal 2011, in the amount of \$0.45 per share, bringing total dividend payments for the fiscal year to \$644 million. Also in the third quarter, we repurchased or redeemed approximately 11.4 million shares, for \$644 million, at an average price of \$56.40 per share, and are on track to deliver the 3% reduction in weighted average diluted shares outstanding this fiscal year. Year-to-date, we have purchased 29.7 million shares, for approximately \$1.4 billion, and \$48.57 per share. At May 31, we had approximately \$1.7 billion of share repurchase authority remaining.

To sum up, our strong results in the third quarter of fiscal 2011 are evidence of our consistent ability to drive profitable growth across the dimensions of our business, and notably, in technology-related services. As fiscal 2011 draws to a close, we remain focused on positioning the business for continued profitable growth in the future. Now, let me turn the call back to Pierre to give you an update on some key aspects of our growth strategy.



Pierre Nanterme - Accenture – Chief Executive Officer

Thank you, Pam. Clearly, our excellent results in Q3 show that we are leveraging marketplace opportunities and executing our growth strategy with great discipline. Our focus remains on superior execution, driving sustainable and profitable growth through technology leadership and industry differentiation, and delivering value to our clients and shareholders. We continue to bring the best of Accenture to our clients, growing both the number and depth of those relationships. We are the partner of choice for the world's leading companies, helping them with their most-complex mission-critical issues.

We are supporting our clients in every major geographic market in which they operate, including our 10 priority emerging markets, which together grew at a significantly higher rate in Q3 than Accenture overall.

We are expanding our technology leadership through new initiatives, leveraging our unique position as a leading partner for pre-eminent technology companies. In mobility, we just announced a major agreement with Nokia to simplify their strategy to transition to the Windows Phone. This agreement will greatly enhance the scale of our mobility practice through the addition of highly-skilled technologists who complement our existing mobility resources and capabilities.

In analytics, we opened new innovation centers in Dublin and Barcelona to develop assets and solutions. These new centers, combined with our analytics capabilities in Milan, Delhi, and Mumbai, form the core of a growing global network of analytics innovation centers.

In Cloud, we are developing a leadership position in implementing software-as-a-service solutions, helping our clients with everything from creating their cloud strategies to implementing public and private clouds.

We are investing in our industry expertise, which continues to be a key differentiator for Accenture. We have an unmatched depth of industry skills, with more than 100,000 people in our operating groups and growth platforms aligned with specific industries. To accelerate the execution of our growth strategy, we have prioritized our investments around specific industries where we see opportunity for even greater return. One of these is Health, where this year we have made great progress in accelerating growth through our differentiated assets and offerings.

Finally, we continue to run Accenture as a high-performance business. As a result, we have been able to deliver strong financial performance and grow market share in virtually every segment of our business.

Before I hand over to Pam, I would like to comment on the macroeconomic environment. Clearly there is still volatility and uncertainty in the marketplace, as governments, primarily in the US and Europe, deal with the challenges of deficits and debt. However, we also know that the global economy is forecast to grow in the range of 4% this year. And the Global 2000 — our clients — are accelerating their investments to compete on the global stage. They are dealing with the challenges of globalization, increased regulation and the need for operational efficiency.

Transformation continues to be an imperative for our clients, and this is driving demand for our services.

Now, let me turn the call back to Pam, who will provide our business outlook.

Pam Craig - Accenture – Chief Financial Officer

Thank you, Pierre. This business outlook for fiscal year 2011 includes fourth-quarter revenues and our final view on the year. For the fourth quarter, we expect revenues to be in the range of \$6.4 billion to \$6.6 billion, or local-currency growth of 10% to 14%, reflecting some moderation in the year-over-year growth rate, as we had expected. This range assumes a foreign uplift of 8% for the quarter that is based on the rates over the last couple of weeks.

Turning to the full fiscal year, we are now assuming a foreign-exchange impact of positive 3% for the full fiscal year, which has trended up from the positive 2% assumption we provided last quarter. Based on our year-to-date results of 16% revenue growth in local currency and the outlook just provided for Q4, we now expect our fiscal 2011 revenue to be in the range of 14% to 15% growth in local currency.

Turning to bookings, after three quarters, we have over \$20 billion in bookings year-to-date. We now expect new bookings for the fiscal year to land at the upper end of our previously guided range of \$25 billion to \$28 billion.

Turning to operating margin, we are at 13.5% year to date. We do expect year-over-year operating-margin expansion in the fourth quarter. We continue to expect operating margin for the full fiscal year to be in the range of 13.6% to 13.7%.



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We now expect our annual effective tax rate to be in the range of 27% to 28%, a reduction of 1% from our previously guided range.

We now expect earnings per share to be in the range of \$3.36 to \$3.40. This increased range reflects US dollar growth of 26% to 28% year-over-year and includes our latest, more-positive assumptions on revenue, foreign exchange and the annual effective tax rate.

Finally, we now expect operating cash flow to be in the range of \$2.9 billion to \$3.1 billion, with property and equipment additions now expected to be \$400 million and free cash flow in the range of \$2.5 billion to \$2.7 billion. This represents a \$100 million lift in our cash flow outlook.

At our Investor & Analyst Day on April 14, I provided a preliminary view into our fiscal 2012 targets for revenue growth in local currency, the growth rate of our earnings per share in US dollars, and cash to be returned to shareholders. These targets, including annual revenue growth of 7% to 10% in local currency, continue to be our preliminary view at this point. Our business is expanding and we expect it to continue to, albeit at a lower rate of growth going forward. I will provide our full business outlook for fiscal 2012, including any impact of updated currency assumptions, when we do our Q4 earnings call at the end of September.

In summary, we are pleased with how well growth has returned to our business this fiscal year, particularly in the four commercial operating groups, as well as in the Health part of Health & Public Service. Of course, we are vigilant and prepared to navigate the economic volatility and uncertainty in markets around the world. We believe we are well-positioned to drive profitable growth, based on our commitment to industry differentiation and technology leadership, and our proven ability to manage our global business at scale. KC, let's take some questions.

KC McClure - Accenture - Managing Director, Investor Relations

Thanks, Pam. I would ask that you each keep your questions limited to one question and one follow-up to allow as many participants as possible to ask questions. Rochelle, would you provide instructions for those on the call, please?

QUESTION AND ANSWER

Operator

(Operator Instructions) First question comes from the line of Tien-Tsin Huang of JPMorgan.

Tien-Tsin Huang - JPMorgan Chase & Co. - Analyst

Thanks so much. Hey, Pam. Great quarter. Couple questions. First, just on the, I guess the guidance, obviously you gave for the fourth quarter, 10% to 14% is pretty strong, better than we expected, despite a tough comp. Given this run rate, I'm curious, should we be changing our thinking on the 7% to 10% growth in fiscal 2012 at all? I know you're not going to give us guidance now, but just at a higher level, given the high run rate, but also the tough comp that it creates, just trying to rethink about recasting that fiscal 2012 number. Any thoughts?

Pam Craig - Accenture - Chief Financial Officer

Yes, well -- no. As I just said, 7% to 10% is where we see it at this point, and we have taken into account that the year is coming out a little stronger.

Tien-Tsin Huang - JPMorgan Chase & Co. - Analyst

Got it, I figured I would ask, just given that the shrink is definitely there. My follow-up is, I guess on the consulting side, obviously the revenue number there was quite good, but the book to bill actually came in a little bit lower than we expected, and it looks like below recent trends. Anything to read into that, Pam?



Pam Craig - Accenture – Chief Financial Officer

No. And I think I may have even mentioned last quarter that we were expecting that this quarter in consulting, and the bookings last quarter, \$3.8 billion, this quarter \$3.7 billion. But our consulting business does continue to expand, and we expect it to tick back up next quarter.

Tien-Tsin Huang - JPMorgan Chase & Co. - Analyst

Got it. Looks like, based on your bookings guidance, it implies a pretty big booking number for the quarter. Anything chunky in there that is already booked that's worth calling out?

Pam Craig - Accenture – Chief Financial Officer

Well, we announced a deal this week with Nokia, and I'm not going to tell you the size of it, but it is one of those ones that's over \$100 million.

Tien-Tsin Huang - JPMorgan Chase & Co. - Analyst

All right, great. Good stuff. Appreciate it.

Operator

Rod Bourgeois of Bernstein.

Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

Hi, guys, great to see the revenues continuing to come through. A question on the bookings front. Were your May quarter bookings affected by any year-to-year change in duration, or are there other factors causing your recent bookings to convert into revenues at a faster rate than what is normal?

Pam Craig - Accenture – Chief Financial Officer

It's interesting, Rod. We did see bookings convert quickly to revenue, maybe a little bit more than we expected, which I think makes up for the other part of why the revenues came in a little higher than we, even more over the top end of the range. But there's nothing else, to the first part of your question, that we see in there.

Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

Okay. Well, at this stage of the cycle, it would seem natural that you would be seeing somewhat of a shift from the high-end consulting business, where you're helping clients plan things, more into the systems integration business, where you're helping clients implement things. Is that sort of a transition that's now occurring, that's affected the near-term bookings, but then as the year wears on in systems integration and the implementation work picks up, does that -- is that sort of why you signal that bookings, I think even in consulting next quarter, should be stronger? Is there a transition happening along those lines? Or is there some other factor that causes bookings to improve as you move into next quarter on a year-over-year growth basis?

Pam Craig - Accenture – Chief Financial Officer

It was really just about the pipeline and how we saw the stuff coming through. I think in management consulting and technology consulting this year, we've been running really, really hot. So it was just sort of kind of a catching-up piece that's happening here, but we continue to see strong demand across all three parts of our consulting business.



Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

Okay, and then just a real quick clarification on the margin front. I'm assuming your guidance for operating margin, which you're guiding to slight expansion for the year, that's after including the impact of this litigation reserve that you took in the recent quarter?

Pam Craig - Accenture – Chief Financial Officer

Yes.

Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

Okay. So that's a true GAAP operating margin expansion number?

Pam Craig - Accenture – Chief Financial Officer

Yes, it is.

Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

All right, perfect. Thanks, guys.

Pam Craig - Accenture – Chief Financial Officer

Thank you, Rod.

Operator

Julio Quinteros of Goldman Sachs.

Pam Craig - Accenture Public Ltd Co - CFO

Hi, Julio.

Julio Quinteros - Goldman Sachs - Analyst

Hi, Pam. How are you? Hey, Pierre, too. Sorry about that. I had to say both of you guys, everybody. Real quickly--.

Pierre Nanterme - Accenture – Chief Executive Officer

I'm here, but Pam is the star.

Pam Craig - Accenture – Chief Financial Officer

This one's for you, Pierre.

Julio Quinteros - Goldman Sachs - Analyst

I'm going to get to you too, Pierre. On the revenue productivity, maybe I'll just start with Pierre on this one, because actually it's probably more directed at you. The revenue productivity per head looks like it's actually up a little bit both year-over-year and quarter over quarter. I'm trying to get a sense very directly about what this means in terms of pricing, or is this more mix shift, as you think about global delivery versus consulting, maybe you're seeing more consulting work. Could you talk a little bit about the environment for pricing and maybe what's driving some of the benefits to the revenue productivity on kind of a per-headcount basis?



Pierre Nanterme - Accenture – Chief Executive Officer

Yes, to comment on our productivity, indeed, from a pricing standpoint, as we mentioned probably in the prior quarter, but we confirmed that in this quarter, as well, we did see stabilization when it comes to the pricing and even some potential uplift in some part of our business, but definitely it's moving in the right direction.

Julio Quinteros - Goldman Sachs - Analyst

Got it, okay. And then on the headcount plan for the year, I believe the 66,000, that's up a little bit from the previous number that you had. I think it was 64,000 before, if I'm not mistaken, for gross heads.

Pam Craig - Accenture – Chief Financial Officer

That's right, Julio.

Julio Quinteros - Goldman Sachs - Analyst

And is there a sense for where that mix is going? It looks like a big part of the headcount addition is still very overweight, the global delivery model. Should we think about that as still kind of the plan here, relative to sort of building out the SI capabilities on the offshore side, or is there something different to be thinking about there?

Pierre Nanterme - Accenture Public Ltd Co - CEO

I think the answer is indeed. I mean, we continue to grow our people in our global delivery network, and we will continue to do so next year as well. Now, that being said, given the nature of the demand we are facing, and the nature of the work as well, we continue to hire people on an onshore and country basis. So it's a mix of both, but clearly we continue to hire very significantly in our global delivery network.

Julio Quinteros - Goldman Sachs - Analyst

Great. Okay, guys. Thank you. I'll yield the floor.

Operator

Jamie Friedman, Susquehanna.

Jamie Friedman - Susquehanna Financial Group / SIG - Analyst

Hi, thanks. Thanks for taking my questions.

Pam Craig - Accenture – Chief Financial Officer

Hi, Jamie.

Jamie Friedman - Susquehanna Financial Group / SIG - Analyst

So you're lifting the free cash flow by about \$100 million just in the near term. I know the Board meets this summer to discuss -- I was wondering if you could talk, at least philosophically, about what to do with the \$5.3 billion in cash, when you're balancing the consideration between the repurchase as a practice, versus the dividend. If you could talk between the repurchase and the dividend. Thank you.



Pam Craig - Accenture – Chief Financial Officer

Sure. As you correctly stated, we will be meeting with the Board next month and doing our planning for fiscal year 2012, where we will indeed plan both of those pieces and look at the allocation between both of them. So it would be premature for me at this point to signal anything there. We're certainly well-aware that we do have this cash balance. We do believe it's a nice problem to have, and we will continue to look for tactical tuck-in acquisitions to use that cash as well.

Jamie Friedman - Susquehanna Financial Group / SIG - Analyst

Okay. Then maybe, if I could just follow up. Pierre, on the operating side. These numbers were tremendous. It's just human analytical nature to focus on the one. How bad is the public service sector, because you don't decompose that between healthcare, so how bad is that, and is it going to get worse in fiscal 2012?

Pierre Nanterme - Accenture – Chief Executive Officer

It's declining, it's not that bad, but it's not moving in the right direction. Given the overall environment, we probably all know what's happening with government — especially in some specific regions, and I think about the US, some parts of Europe, and even some parts of Latin America — is raising some question around further investment. Now, that being said, we are repositioning that practice with our Public sector leadership to make sure that we're going to capture the opportunity for growth moving forward. And especially we are doing that in three areas, all are going to be related to the human services, especially all around welfare, benefits and pensions, which can be a growing market moving forward. Or it is related to operational management, or to finance and HR operations, but as well, we see some good opportunities in all the defense and public sector, especially around border protection and other activities. So we see some future areas for growth and we are repositioning our practice to take those opportunities in the coming months.

James Friedman - Susquehanna Financial Group / SIG - Analyst

That's a great answer. Thank you very much.

Operator

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - Citigroup - Analyst

Hi. Congratulations on a very good quarter.

Pam Craig - Accenture – Chief Financial Officer

Thank you, Ashwin.

Ashwin Shirvaikar - Citigroup - Analyst

And my first question is, the CapEx of \$400 million, it's modestly lower than what you expected earlier, even though you see pretty good outsourcing bookings here in the last couple of quarters. Can you comment on some of the things you might be doing around capital efficiency and what should we expect going forward?

Pam Craig - Accenture – Chief Financial Officer

Yes, that was really just a tweak, and most of that capital does indeed go into building out our global delivery network and, again, that's where most of that goes, and has gone and will go.



Ashwin Shirvaikar - Citigroup - Analyst

Okay. And, Pierre, you had a comment about the top-10 emerging markets growing much faster than the core. I guess that's why they are emerging. How big are they put all together? And what changes should investors expect in either operating or financial metrics, as that becomes an increasingly material part of the business?

Pierre Nanterme - Accenture – Chief Executive Officer

Yes, thanks for the question, and indeed, at our IA [Investor & Analyst] Day we mentioned that those 10 markets put together represent in the range of \$3 billion in Accenture revenues, to give you a sense of what that is, and our objective is to move from \$3 billion to \$6 billion in the next horizon of 2015.

Ashwin Shirvaikar - Citigroup - Analyst

Okay, and the second part of that question, if you could. What changes should investors expect in either operating or financial metrics? As that becomes \$6 billion, a pretty big number. That's very good growth in four years.

Pam Craig - Accenture – Chief Financial Officer

As you know, philosophically, our objectives in terms of revenue for Accenture overall are to grow ahead of the market, and then in operating margin — balancing all the puts and takes and everything that goes in there, including investments, which we will make in these emerging markets — is to strive for modest expansion.

Ashwin Shirvaikar - Citigroup - Analyst

Okay. If I can squeeze in a housekeeping. The higher share count, even though you did a repurchase of 11 million shares, can you explain what's going on?

Pam Craig - Accenture – Chief Financial Officer

Yes, what happened there was we actually didn't go into the market until after our IA day on April 14. So the repurchases that we made this quarter were very weighted to the end of the quarter, and so that just, the way that calculation is done, it looks that way. But you'll see it go down next quarter.

Ashwin Shirvaikar - Citigroup - Analyst

All right, thank you.

Operator

Nathan Rozof, Morgan Stanley.

Nathan Rozof - Morgan Stanley - Analyst

Hi, thanks for taking my question. The one thing I wanted to delve into here just to kind of focus back on demand. In particular, when you guys were going through the drivers of growth on the operating group level, you kept referring back to ERP as being one of the primary drivers. And I think that might surprise some folks, just given the kind of lingering concerns about the macro environment, just since your ERP projects tend to be larger and more complex. So I was wondering if you could give us any color on the client behavior that's driving those investments in particular, and are you seeing similarly strong demand from ERP in your bookings, as well as revenues?



Pierre Nanterme - Accenture – Chief Executive Officer

Yes, to understand what's happening in terms of drivers, we have been working with all those large companies belonging to the G2000, so you need to figure out what their needs are, and indeed, they are facing a huge transformation when it comes to globalization. They made acquisitions, they need to integrate now, as well to significantly improve their operational efficiency in order to compete in this new world. So indeed, they need to rationalize their operations, and one way to do it is through ERPs. When we talk about ERPs as well, they are all developing new features, if you will, especially around mobility and analytics. So it's a natural extension of the ERP implementations we are doing. But you need to put that in the context of acquisitions and globalization, the need for them to better run their operations with more efficiency.

Nathan Rozof - Morgan Stanley - Analyst

Okay. Thanks for that, Pierre. I wanted to follow up with you on your strategy of expanding the business in Accenture's footprint more into developing countries. I just wanted to follow up and see, one, can you give us any update on the regions that you've highlighted before that may or may not be growing as the fastest, as well as, are you seeing any impact from buyers in those countries as it would relate to concerns about contagion from macro concerns in the developing world?

Pierre Nanterme - Accenture – CEO

When you look at this, and in our 10 countries, you will find the usual suspects of the BRIC [Brazil, Russia, India, China], and you would add South Korea, you would add Mexico, Turkey, Middle East, South Africa, and you're getting to the kind of 10 core emerging markets, and we're going to have a footprint in each and every continent as well, which is very important for us. They're growing faster than the average of Accenture, we're going to be in those economies, because indeed, they are growing as well, faster than the more mature markets, and today we are very pleased with our progress so far.

Nathan Rozof - Morgan Stanley - Analyst

Thanks so much.

Pierre Nanterme - Accenture – Chief Executive Officer

Did you have another question?

Nathan Rozof - Morgan Stanley - Analyst

No, that's good. Thank you very much.

Pam Craig - Accenture – Chief Financial Officer

Thank you, Nathan.

Operator

Arvind Ramnani, UBS.

Arvind Ramnani - UBS - Analyst

Thanks for taking my question. A couple of quarters back, you talked about your transformational type consulting deals being funded in a more piecemeal fashion. Has there been any change in the dynamic given the macro scenario?



Pam Craig - Accenture – Chief Financial Officer

Not really, Arvind. I think that funding them in sort of more, smaller chunks, more carefully is indeed the trend, and we see that continuing, and we do see transformation projects indeed continuing.

Arvind Ramnani - UBS - Analyst

Great, great, and is there any notable change in the duration of your consulting bookings?

Pam Craig - Accenture – Chief Financial Officer

No, there really isn't at this point. We looked at that and it was roughly stable.

Arvind Ramnani - UBS - Analyst

Great. Thank you.

Operator

David Grossman, Stifel Nicolaus.

David Grossman - Stifel Nicolaus - Analyst

Thank you. You've had great results, and your business is frequently viewed as late cycle. However, given this backdrop of concerns about economic growth slowing, can you help us understand how we should think about the risks or the buffers that are already incorporated in your 2012 guidance in a slowing environment?

Pam Craig - Accenture – Chief Financial Officer

Well, I think -- as you know, I think we really try to be as thoughtful as we can about that, and one of the things that's just clearly the case, and certainly we all recognize how much uncertainty and volatility there is out there, but as Pierre mentioned earlier, we work with the Global 2000, and all of them are focused on very strategic agendas when it comes to globalization, all the new regulation that's going in, the need to innovate, the need to compete on the global stage. And so we see -- I mean, all of this planning is done very bottom-up, top-down, sort of every which way, based on the kinds of things we do, the kinds of offerings we have, and the kinds of needs of these clients. So we do our best to take all of that into account and also recognize that demand patterns do change. For example, in Japan, there will be different things that our clients there will need, both the public sector as well as our commercial clients. So part of that is anticipating that, being proactive about that, and then being positioned for that.

David Grossman - Stifel Nicolaus - Analyst

Great, thanks. That's actually very helpful. One other question I had is on global delivery. And the proliferation of global delivery has had a fairly prolific impact on the delivery of professional services in developed countries over the past several years. Perhaps you can share with us your view of how global delivery is evolving within those markets and contrast it to the role global delivery will play in the emerging markets, given how important those are becoming.

Pierre Nanterme - Accenture – Chief Executive Officer

The global delivery network for us is where we are delivering, it is our industrial strength, it is all about the manufacturing of the technology of Accenture, if you will. And it's going to remain extremely important. We want in our deliver network to move to the next level of operational efficiency. We want to drive more and more end-to-end programs. We want to deliver, to develop skills around very specific assets and solutions, around very specific technologies, such as mobility and the Cloud, or even the analytics as I mentioned, with the Mumbai and the delivery centers. So that's playing a big role in supporting our expansion into mature markets, but as well, when you look at more emerging markets, we are leveraging our global delivery network, because for us, as you know, it is in multiple countries, so it's not only India, but it's Philippines, we



have global delivery network in Latin America—in Brazil, in Argentina—as well in China. So this is the way we see the global delivery network in the way we support mature and emerging markets.

David Grossman - Stifel Nicolaus - Analyst

Thank you.

Operator

Dave Koning, Robert W. Baird.

Dave Koning - Robert W. Baird & Co. - Analyst

Hey, guys. Thanks. In EMEA, you had one of the strongest Q3s ever, I think the strongest Q3 ever sequentially in terms of revenue growth, and I would imagine, I know some of that's currency-related, but regardless, very strong. And I'm just wondering, any change in tone out of Europe later in Q3, into June, or has that growth maintained a very strong pace?

Pierre Nanterme - Accenture – Chief Executive Officer

I think so far, we see a strong demand in Europe, double-digit growth when you look at the result we have delivered. We do not see any dramatic change in the buying pattern over there. Again, we are working mainly with the large multinationals in Europe, and many of those companies are, of course, operating outside Europe as well, and we are supporting them yes indeed from Europe, but in many of their programs, which are much more global.

Pam Craig - Accenture – Chief Financial Officer

And it was -- there was very strong growth in consulting and interestingly, nearly every country posted up growth.

Dave Koning - Robert W. Baird & Co. - Analyst

Great, thanks. And then just as a follow-up, BPO, you mentioned bookings were also strong in the quarter. Some of the pure play Indian BPO firms talk about strong pipelines, but they have had longer sales cycles. I'm just wondering, I'm sure your pipeline's also strong. I'm just wondering, has there been any change in, I guess, sales cycle shortening now and getting deals signed?

Pam Craig - Accenture – Chief Financial Officer

I think that trend of longer sales cycles, we have seen a bit of that as well. And it doesn't particularly concern us. I think from the standpoint of, you know, we're confident about how those bookings will come on, but we have seen a little lengthening there.

Dave Koning - Robert W. Baird & Co. - Analyst

Okay, great. Thanks. Good job.

Pam Craig - Accenture – Chief Financial Officer

Thank you, David.

Operator

Darrin Peller, Barclays.



Darrin Peller - Barclays Capital - Analyst

Great, thanks. Hi, guys. Pierre, first on the big picture, could you help us understand, we saw very strong growth in Financial Services and in Products and some other areas. Seems like there's some underlying drivers that some might argue are less sensitive to the macroeconomic picture than others. Could you just talk a little bit about the drivers that should theoretically continue to support growth, regardless of sort of the macro picture and how it plays out, given how uncertain things are at the moment, into next year? Is there enough power in these drivers to support growth, even mild growth, if there was a scenario where the economy turned down?

Pierre Nanterme - Accenture – Chief Executive Officer

Yes, I would see, at the minimum, four main drivers coming into my mind as we speak. The first one is the power of globalization. Despite all what we could hear on protectionism, we believe that globalization will continue and is a key trend and force for clients. To be more specific, they have all been making significant acquisitions the past couple of years and now they will have to integrate those acquisitions to drive more synergies and more efficiency.

Of course the second big driver is around the increased regulation, and that's something which is a kind of must-do, clearly in financial services, you all know about the Solvency II and the Basel III, but you can take the same imperative in the chemical industry and the pharma industry, and in many of the industries outside, especially in energy as well, and most of those clients, especially the big ones, will of course have to comply with those regulations.

The need as well for operational efficiency; I mean, productivity's the name of the game. If you want to compete, you need to drive more efficiency out of your operations, and if you're operating on a global stage, I mean, that requires a lot of work and this is why you see more BPO, more outsourcing kind of work, more of those activities.

And finally, especially in the efficiency, all those new technologies are kicking in. And if you combine the Cloud, the mobility with all the analytics, all our clients need those technologies in order to drive more efficiency. So efficiency, globalization, regulation — those are big trends and big forces, which should be outside there for quite a while.

Darrin Peller - Barclays Capital - Analyst

Yes. I mean, it just seems like there's enough drivers underlying the business today that might make this somewhat of a different time in terms of resilience in almost any cycle.

Pam, just a quick follow-up for you. You maintained margin guidance of 10 to 20 basis points despite the year-over-year decline in the quarter. You noted the underlying contract profitability improved during the quarter, given pricing and the mix improvement I think, but can you help us understand the trend and the cost structure underlying that. Maybe just higher-level also, is there opportunity for that to really see a further benefit down the road from the GDN?

Pam Craig - Accenture – Chief Financial Officer

Well, as we discussed on Investor & Analyst day — and Kevin [Campbell] was there — we never will give up on continuing to drive efficiency and productivity in our cost to serve, and that did indeed yield well for us in the third quarter and we expect that trend to continue in the fourth. And that is why I feel confident at this point about our operating margin expansion for the year.

Darrin Peller - Barclays Capital - Analyst

Okay. Thanks, guys.

Pam Craig - Accenture – Chief Financial Officer

Thank you, Darrin.



Operator

Joseph Foresi, Janney Montgomery.

Joseph Foresi - Janney Montgomery Scott - Analyst

Hi.

Pam Craig - Accenture – Chief Financial Officer

Hi, Joe.

Joseph Foresi - Janney Montgomery Scott - Analyst

Hi, how are you doing? I guess my first question here is, we've seen consulting, and people characterize it as sort of a late cycle recovery. I wonder if you could characterize for us what stage you think that the demand for that offerings, and are we in the early stages of the rebound? Are we peaking? I know you've reported record numbers again this quarter, and maybe you could give us color as to why you feel that way.

Pierre Nanterme - Accenture – Chief Executive Officer

The demand is remaining robust because of those big trends I mentioned before. So I'm not sure we can characterize whether we are early in the cycle or late in the cycle. We are in the cycle.

Pam Craig - Accenture – Chief Financial Officer

We're in the cycle.

Pierre Nanterme - Accenture – Chief Executive Officer

Indeed, and again, many of those large corporations, they have to act now. They have to do something in order to, again, compete, of being compliant with the regulations. So we are in the cycle, which seems to be providing good demand for our services.

Joseph Foresi - Janney Montgomery Scott - Analyst

Okay, and then just secondly, I know we talked about the public sector, but is there any other area that I guess is potentially concerning to you, either from a macro perspective or on the ground through any of your services, verticals and offerings, something that you're maybe keeping an eye on right now, and maybe why that is?

Pierre Nanterme - Accenture – Chief Executive Officer

We're keeping an eye on all our babies, but clearly, we are putting the stronger eye on public sector, and we are working around this repositioning and we will get there. I think what we are investing in in terms of differentiated offerings will be, I think very spectacular in that field. If you look at the other commercial operating groups, as we say, at Accenture, they are providing extraordinary strong revenue growth today.

Pam Craig - Accenture – Chief Financial Officer

Yes, they are all firing well, and it's broad-based across the world as well.

Joseph Foresi - Janney Montgomery Scott - Analyst

Okay, great. Thank you.



KC McClure - Accenture – Managing Director, Investor Relations

Rochelle, we have time for one more question. And then Pierre will wrap up the call.

Operator

George Price, BB&T Capital Markets.

Pam Craig - Accenture – Chief Financial Officer

Hi, George.

George Price - BB&T Capital Markets - Analyst

Hi. Thanks very much for letting me sneak in at the end here. Pam and Pierre and everybody else, nice job.

Pam Craig - Accenture – Chief Financial Officer

Thank you.

Pierre Nanterme - Accenture – Chief Executive Officer

Thank you.

George Price - BB&T Capital Markets - Analyst

Lot of questions around demand, so I'm going to switch over to something else. Can you talk a little bit more about the litigation reserve and kind of what's going on with that? Is that for one or a small number of specific matters? Is that related to tax matters at all? Why the timing now? Just a little bit more color around that.

Pam Craig - Accenture – Chief Financial Officer

Yes, it's not related to taxes. The reserve was primarily related to one matter, but we're not going to comment specifically on any matter, and we don't expect to be accruing at that level going forward, and we don't see a significant change to our profile at this point.

George Price - BB&T Capital Markets - Analyst

Is this matter a recent matter or more ongoing?

Pam Craig - Accenture – Chief Financial Officer

Not going to comment on it, George, okay?

George Price - BB&T Capital Markets - Analyst

Okay, okay. Fair enough. Then I guess maybe, maybe I guess I will switch over back to--?

Pam Craig - Accenture – Chief Financial Officer

Yes, go back to demand. We like demand.



George Price - BB&T Capital Markets - Analyst

So I guess I can't help a little bit maybe in feeling like the tone seemed a little cautious, maybe a little hesitant, despite everything that's going on, just in talking about fiscal 2012 and at this point, you still see things the way that they are. There are a lot of concerns, a lot going on out there. In looking back at consulting bookings, sometimes you see fiscal 3Q is the strongest one, sometimes fiscal 2Q. And I guess what I want to get to is, did you see anything unusual in terms of movement around, any cancellations, any deferrals? Because you mentioned that you expect consulting bookings to kind of tick up next quarter. So is that, that you had some stuff slip and why did it slip? If you could maybe comment on that?

Pam Craig - Accenture – Chief Financial Officer

Yes, be happy to. There was nothing unusual. I think I signaled last quarter that I thought the consulting bookings might moderate a little bit and I think it was just, when you're running so hot and as we had been this year, we just expected just a little kind of breath-catching and then back to it. So there really isn't anything unusual that we see at this point. Even looking at last year — I'm just looking at the consulting bookings — the third quarter was the lowest of the year. So there's nothing really funny happening here, and there really isn't anything. As I said, we expect them to tick back up next quarter.

George Price - BB&T Capital Markets - Analyst

Okay, and just kind of follow-up to that, are clients, when would clients be making -- would clients be making any sort of midyear decisions maybe on budget or spending plans? I mean, if some of these macro concerns did start to weigh and did start to influence their decision-making, would you expect to see any of that midyear, possibly as you go through reporting next quarter? Any thoughts on that, just in terms of what we should kind of listen for?

Pam Craig - Accenture – Chief Financial Officer

We haven't seen anything on that. Of course if we did, we would share it with you, but we have not seen anything on that.

George Price - BB&T Capital Markets - Analyst

Okay. What country in Europe didn't grow, or countries?

Pam Craig - Accenture – Chief Financial Officer

The Netherlands.

George Price - BB&T Capital Markets - Analyst

Interesting. Great. Okay. Thanks for the time.

Pam Craig - Accenture – Chief Financial Officer

You bet, George.

Pierre Nanterme - Accenture – Chief Executive Officer

Thank you for -- I think it's time to wrap up probably at this time, so thanks a lot for joining us on the call today. As you heard, we are extremely pleased, not only with our strong performance in the third quarter, but also with the good momentum in our business.

Next month, on July 19, we will mark the 10th anniversary of Accenture's IPO. Many of you on the call today have been shareholders since those early days, and to you, and to all of our investors, I want to say thank you for your continued support.

Of course our success over the past 10 years would not be possible without Accenture's dedicated team of 223,000 men and women around the world, who are incredibly committed to the success of our clients.



In closing, we believe that we have the right positioning, the right strategy, and we are executing at scale and at speed to drive our growth agenda forward. We look forward to talking with you again on our Q4 earnings call. Until then, if you have any questions, please feel free to call KC to make arrangements for follow-up. All the best.

Operator

Thank you. Ladies and gentlemen, this conference will be made available for replay after 7.00 PM today until September 28, at midnight. You may access AT&T Executive Playback Service at any time by dialing 1-800-475- 6701, entering the access code 204978. International participants, dial 1-320-365-3844, and again, that access is 204978. That 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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