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ACN – ACCENTURE'S Q2 FISCAL 2015 EARNINGS
CONFERENCE CALL

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Accenture's Q2 FY '15 Earnings Conference Call

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Tien-Tsin Huang *JPMorgan - Analyst*

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Dave Koning *Robert W. Baird & Company, Inc. - Analyst*

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PRESENTATION

Operator

Welcome to the Accenture second quarter FY15 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time.

(Operator Instructions)

As a reminder, today's conference is being recorded. I would now like to turn the conference over to our host, Managing Director and Head of Investor Relations, KC McClure. Please go ahead.

KC McClure - Accenture - Managing Director and Head of IR

Thank you, Brad, and thanks everyone for joining us today on our second quarter FY15 earnings announcement. As Brad just mentioned, I'm KC McClure, Managing Director, Head of Investor Relations. With me today are Pierre Nanterme, our Chairman and Chief Executive Officer, and David Rowland, our Chief Financial Officer. We hope you've had an opportunity to review the news release we issued a short time ago.

Let me quickly outline the agenda for today's call. Pierre will begin with an overview of our results. David will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for the second quarter. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the third quarter and full FY15. We will then 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, including our business outlook, are forward-looking and as such, are subject to known and unknown risks and uncertainties, including but not limited to those factors set forth in today's news release and discussed in our annual report on Form 10-K and quarterly reports on Form 10-Q, and other SEC filings. These risks and uncertainties could cause actual results to differ materially from those expressed in this call.



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During our call today, we will reference certain non-GAAP financial measures which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures where appropriate to GAAP in our news release or in the Investor Relations section of our website at Accenture.com. As always, Accenture assumes no obligation to update the information presented on this conference call. Now, let me turn the call over to Pierre.

Pierre Nanterme - Accenture - Chairman and CEO

Thank you, KC. And thanks everyone for joining us today.

We are extremely pleased with our financial results for the second quarter, continuing our momentum from the first quarter. Our strong performance in the second quarter was, again, broad-based across the different dimensions of our business and we gained significant market share. Here are a few highlights:

- Let me start with our new bookings of \$9.4 billion, our second highest quarterly bookings ever. This brings us to \$17 billion for the first half and positions us well for the year.
- We delivered very strong revenue growth of 12% in local currency, with double-digit growth in both Consulting and Outsourcing.
- Earnings per share were \$1.08, a 5% increase.
- We expanded operating margin 30 basis points, to 13.6%.
- Our balance sheet remains very strong, ending the quarter with a cash balance of \$4.1 billion.
- And we continue to return a substantial amount of cash to shareholders through share repurchases and dividends.
- Today, we announced a semi-annual cash dividend of \$1.02 per share, which will bring total dividend payments for the year to \$2.04 per share, a 10% increase over last year.

So, with the first half of the year behind us, I feel very good about our results and the momentum we are creating in our business. And we have, again, raised our revenue outlook for the full fiscal year. Over to you, David...

David Rowland - Accenture - CFO

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

As you heard in Pierre's comments, we delivered a very strong second quarter. This is the fourth consecutive quarter of strong and building momentum in our business as we continue to execute a growth strategy that's clearly resonating in the marketplace. During this period, we've gained significant market share by being relevant and responsive to the needs of our clients.

Looking more specifically at the second quarter, following a strong start to the year in quarter 1, we, again, delivered on all three imperatives for driving shareholder value. Our 12% growth, which continued to be broad-based across almost every dimension of our business, reflects the durability of our revenue growth model as we drive growth at scale.

Our operating margin of 13.6%, 30 basis points higher than last year, demonstrates the success of the actions under way to improve profitability and reflects our ability to manage our business to drive sustainable margin expansion. And our free cash flow of \$220 million was consistent with our expectations and keeps us on a trajectory to deliver free cash flow in excess of net income for the full year, while returning significant cash to shareholders.

So we were extremely pleased with the second quarter: very strong growth, strong margin expansion, and cash flow consistent with our expectations. With that said, let's now turn to some of the details starting with new bookings.

New bookings were \$9.4 billion for the quarter, as Pierre said, representing the second highest quarter in our history. Consulting bookings were \$4.2 billion, with a book-to-bill of 1.1. Outsourcing bookings were \$5.1 billion, with a book-to-bill of 1.4. On a year-to-date basis, bookings are now just over \$17 billion, a very healthy level, especially when considering the FX impact, and puts us within our target book-to-bill range for both Consulting and Outsourcing.



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Taking a closer look at our quarter 2 bookings, an important theme was the continued strong demand for both Digital-related services and Operations. At the same time, we saw very good demand for both Application Services and Consulting-related services. Another important characteristic was the broad-based nature of the uptick in new bookings, with sequential improvement in bookings across all operating groups and all three geographic areas. Finally, we were pleased that we had a record 15 clients with bookings in excess of \$100 million, which points to the strength of our client relationships and their trust in our ability to drive the most important initiatives on their agenda.

Turning now to revenues. Net revenues for the quarter were \$7.49 billion, an increase of 5% in US dollars and 12% in local currency, reflecting a negative 6.5% foreign-exchange impact, compared to the negative 5% impact provided in our business outlook last quarter. Adjusting for the additional FX headwind, we came in well above the top end of our guided range. Consulting revenues for the quarter were \$3.8 billion, up 4% in USD and 11% in local currency. Outsourcing revenues were \$3.7 billion, up 6% in USD and 13% in local currency.

Looking broadly at the major drivers of revenue growth in the quarter, we saw consistent trends with our most recent quarters. The dominant drivers were strong double-digit growth in Digital-related services, Operations and Application Services, and it's also noteworthy that our results reflected an uptick in growth rates in both Strategy and Consulting services, which are now growing at mid-single digits.

Turning to the operating groups. Communications, Media & Technology delivered another quarter of 15% growth, which continued to be broad-based, with almost all dimensions growing double digits. The strongest growth drivers continued to be Digital-related services, cost rationalization and several large transformational projects, as well as increasing demand for network-related services.

H&PS also grew 15% in the quarter, and the drivers continued to be very significant growth in our Health business, particularly in the public sector, driven by our health exchange and Medicaid-related projects at US federal and state clients. Digital-related services and Operations, particularly in BPO, continued to be very significant drivers of growth as well.

Products growth of 13% continued to reflect strong and balanced growth across all three geographic regions and most industries. Digital and cost optimization were significant areas of focus for clients in this operating group as well. Application Services was also a driver, as well as very strong overall growth in Consulting.

Financial Services grew 9%, led by strong growth in Europe and across all three industries, particularly in Capital markets and Insurance. Digital-related services continued to be a major theme as our clients are looking for new and innovative ways to connect with their customers and serve their needs. Additionally, cost optimization and risk and regulatory work continue to be significant areas of focus.

Resources grew 6%, with growth in all three geographic regions and all industries except Energy. Revenues were driven by growth in Outsourcing across all industries, including Energy, as clients focus on operational efficiency and cost rationalization.

Moving down the income statement. Gross margin for the quarter was 29.9% compared with 31.3% for the same period last year, down 140 basis points. Sales and marketing expense for the quarter was 10.7% of net revenues compared with 11.7% of net revenues for the second quarter last year, down 100 basis points.

General and administrative expense was 5.6% of net revenues, compared with 6.2% of net revenues for the second quarter last year, down 60 basis points. Operating income was \$1 billion in the second quarter, reflecting a 13.6% operating margin, up 30 basis points compared with quarter 2 last year.

Our effective tax rate for the quarter was 26%, compared with an effective tax rate of 24% in the second quarter last year. Net income was \$743 million for the second quarter, compared with net income of \$722 million for the same quarter last year. Our diluted earnings per share were \$1.08, compared with EPS of \$1.03 in the second quarter last year. This reflects a 5% year-over-year increase.

Turning to DSOs. Our days services outstanding continue to be industry-leading. They were 35 days, down from 37 days last quarter. Free cash flow for the quarter was \$220 million, resulting from cash generated by operating activities of \$301 million, net of property and equipment additions of \$82 million. As I mentioned in quarter 1, we shifted the timing of a portion of our compensation payments from quarter 1 to quarter 2. While this shift negatively impacted the second quarter, there's no impact to full year cash flow.

Moving to our level of cash, our cash balance at February 28 was \$4.1 billion, compared with \$4.9 billion at August 31 last year, down \$800 million, as we've returned \$1.9 billion to shareholders through repurchases and dividends in the first half of FY15.

Moving to some other key operational metrics. We ended the quarter with a global headcount of about 323,000 people. We now have approximately 226,000 people in our Global Delivery Network. In quarter 2, our utilization was 91%, consistent with last quarter. Attrition, which excludes involuntary terminations, was 14%, compared to 13% in quarter 1 and 12% in the same period last year. Lastly, we continue to expect at least 90,000 people will join our company in FY15.



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Turning to our ongoing objective to return cash to shareholders. In the second quarter, we repurchased or redeemed approximately 6.8 million shares for \$601 million at an average price of \$87.72 per share. Year-to-date, we purchased 15.2 million shares for approximately \$1.3 billion, at an average price of \$83.62 per share. As of February 28, we had approximately \$3.7 billion of share repurchase authority remaining.

Finally, as Pierre mentioned, our Board of Directors declared a dividend of \$1.02 per share, representing a 10% increase over the dividend we paid in May of last year. This dividend will be paid on May 15, 2015.

So, with two quarters in the books, we've delivered very strong results and feel positive about how we're positioned for the remainder of the year. That said, we don't take anything for granted. We continue to drive our business with rigor and discipline, doing everything possible to deliver a strong second half of the year. With that, I'll turn it back to Pierre.

Pierre Nanterme - Accenture - Chairman and CEO

Thank you, David.

We are executing very well against our growth strategy and taking a leadership position in each of the businesses in our portfolio. The investments we've made in assets and solutions, in strategic acquisitions, in attracting talent and in building the skills and capabilities of our people, have positioned us very well to capture new growth opportunities. We are driving innovation across Accenture to build capabilities that are both highly relevant to our clients and highly differentiated in the marketplace.

You have heard me mention two important trends, digitization and rationalization, that are driving demand for our services and contributing to our growth. We invested ahead of the curve to build the capabilities that will help our clients respond to these trends.

Digitization is all about helping our clients tap into new sources of value and new sources of revenue to create competitive advantage. We are helping clients capitalize on this trend to become the disruptors in the new digital world, not the disrupted.

A great example is the work we are doing with a leading retailer, helping them envision entirely new ways to attract customers and achieve their goal of quadrupling revenue. We are bringing innovative digital technologies to help them move beyond a traditional store model to a multi-channel digital strategy.

For a global telecommunications provider, we developed a digital strategy underpinned by analytics to significantly upgrade their customer service, while delivering cost savings of almost \$100 million.

We are also working with our clients to develop innovative products and services based on the Internet of Things. We are helping Visa explore the future of mobile payments to make purchases more convenient, even inside a car. Leveraging our expertise in digital commerce, we built a proof-of-concept to show how consumers in a connected car can order and pay for food securely.

Digital services represent about 20% of our total revenues and grew more than 20% in local currency in the first half of the year. We are seeing demand for digital across all dimensions of the business, in every industry and around the world. And we're clearly benefiting from the investments we have made in this space.

In January, we acquired Structure, a Houston-based firm that will further enhance our smart grid operations, and energy trading and risk management services for utilities and energy clients.

In February, we announced the acquisition of Agilex Technologies, a provider of digital solutions for the US federal government. The acquisition enhances our digital capabilities in analytics, cloud and mobility for federal agencies.

And earlier this month we completed the acquisition of Gapso, a Brazilian analytics firm that will expand our advanced analytics capabilities in the supply chain and logistic areas.

The second theme, rationalization, continues to be top of mind for our clients as they look for opportunities to increase productivity and efficiency across their organizations. We have invested to take a leadership position in this space with Accenture Operations. And we are the first company to combine business process services with infrastructure and cloud services, at scale.



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We are working with a leading global airline on a major transformation of its procurement function, including a cloud-based supplier portal. The airline expects to realize significant cost savings as well as increased standardization and transparency.

We are helping a global beverage company create a global operating hub for finance and accounting, HR, procurement, supply chain and marketing operations. Our multi-tower BPO services will streamline processes, minimize risk and provide new analytical insights.

And we are working with a leading European manufacturer to transform its IT infrastructure. We will migrate existing applications and data services across more than 60 operating companies into a single hybrid-cloud environment. We expect to deliver improved services and flexibility, increased automation and a 30% reduction in operating costs.

Now turning to the geographic dimension of our business. In the second quarter, we again delivered very strong growth across all three of our geographic regions. In North America, we delivered revenue growth of 13% in local currency, driven by double-digit growth in the United States, where we continue to perform extremely well. In Europe, we grew revenues 9% in local currency, driven by double-digit growth in many of our largest markets, including France, Germany, Spain and the Netherlands. And in our growth markets, we grew revenues 12% in local currency with, again, strong double-digit growth in three of our largest markets: Japan, Australia, and Brazil.

So, as you can see, we have delivered an excellent first half of the fiscal year. Our diverse portfolio of business, together with our geographic diversity and our unique ability to integrate our capabilities end-to-end, positions us very well to bring innovative services to market-leading companies, both globally and locally.

Looking ahead, based on the successful execution of our growth strategy, I feel confident in our ability to deliver sustainable, profitable growth over the long term, providing value to our clients, our people, and our shareholders.

With that, I will turn the call over to David to provide our updated business outlook for FY15. David, over to you.

David Rowland - Accenture - CFO

Thank you, Pierre. Let me turn now to our business outlook.

For the third quarter of FY15, we expect revenues to be in the range of \$7.35 billion to \$7.6 billion. This assumes the impact of foreign exchange will be a negative 11% compared to the third quarter of FY14. For the full FY15, based upon how the rates have been trending over the last few weeks, we now assume the impact of FX on our results in US dollars will be negative 8% compared to FY14.

For the full FY15, we now expect our net revenue to be in the range of 8% to 10% growth in local currency over FY14. For the full FY15, we now expect new bookings to be in the range of \$33 billion to \$35 billion, reflecting our revised FX assumptions.

Before I continue with our business outlook, I'd like to comment briefly on a non-cash item that will be recorded in the third quarter. In May, we expect to record a non-cash settlement charge estimated to be approximately \$60 million as a result of a current offer to former employees to receive a voluntary lump-sum cash payment from our US pension plan. This will reduce future risks and administrative costs to Accenture.

On a GAAP basis for FY15, the estimated impact of this settlement charge is approximately 20 basis points to operating margin and approximately \$0.05 in EPS. We will provide both GAAP and adjusted results for quarter 3 and year-to-date results.

For operating margin, on an adjusted basis, we continue to expect FY15 to be 14.4% to 14.6%, a 10 to 30 basis-point expansion over FY14 results. We continue to expect our annual effective tax rate to be in the range of 26% to 27%.

For earnings per share, on an adjusted basis, we now expect EPS for FY15 to be in the range of \$4.66 to \$4.76, or 3% to 5% growth over FY14 results. Absent the higher FX headwind, which impacts EPS by \$0.14, our EPS range would have increased \$0.10 to \$0.14, driven by higher revenue growth.

Turning to cash flow, for the full FY15, we now expect operating cash flow to be in the range of \$3.85 billion to \$4.15 billion, reflecting our revised FX assumption ... property and equipment additions continue to be approximately \$450 million ... and free cash flow now to be in the range of \$3.4 billion to \$3.7 billion.

Finally, we continue to expect to return at least \$3.8 billion through dividends and share repurchases, and also continue to expect to reduce the weighted average diluted shares outstanding by approximately 2%, as we remain committed to returning a substantial portion of cash to our shareholders.



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With that, let's open it up so that we can take your questions. KC?

KC McClure - *Accenture - Managing Director and Head of IR*

Thanks, David. I would ask that you each keep to one question and a follow-up to allow as many participants as possible to ask a question. Brad, would you provide instructions for those on the call, please?

QUESTION AND ANSWER

Operator

Of course. (Operator Instructions)

Our first question today comes from the line of Joseph Foresi from Janney. Please go ahead.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. I was wondering, could you provide a little more color on your exposure to Digital? Just give us some sense of what you expect the growth rates to be there. And how should we think about that as it relates to bookings as far as the size of the deals and the margin contribution? Thanks.

Pierre Nanterme - *Accenture - Chairman and CEO*

Okay. I will take the first part of it. And indeed, as we communicated recently and even these last years, we are embarked in rotating more of our business to what we are calling now Digital-related services. Digital is positive across the board. This is something we anticipated, frankly, a few years ago, probably in the range of 2009. And we invested a lot ahead of the curve, you remember, around what we are calling Interactive, Analytics, Cloud, and Mobility. And now indeed, we have significantly benefited from this wave, which is very important. That's why I was very pleased and proud to report our position in terms of Digital-related services now at 20% of Accenture revenues, in that short period in time, and as important and even more important, well above 20% local-currency growth for the first half of the year. So, needless to say that we have a great momentum in that business, and indeed, it's covering a large variety of opportunities, small, medium, large, covering Consulting or Outsourcing type of work.

So Digital is positive across the different dimensions of our businesses: Consulting, Outsourcing, across all industries. They are more or less around this 20%, some above, a few slightly below, and on balance, I guess, David, they will command good pricing.

David Rowland - *Accenture - CFO*

Yes, and I think -- I mean, just as it relates to the bookings question, although Pierre alluded to this, is that the Digital deals do span all sizes. We have larger Digital projects and obviously, we have a high volume of medium-size to smaller projects.

So I guess what I would say is that you might think about it in the context of the quarter we just delivered, where we delivered \$9.4 billion in bookings with a heavy component of Digital. And so I don't think that this necessarily changes anything in terms of that dynamic overall.

Pierre Nanterme - *Accenture - Chairman and CEO*

Just to add a piece of information on this. As you know, we created as well Accenture Digital, where we have organized our Accenture Interactive, Accenture Mobility and Accenture Analytics work. And what we are aiming at, in a true Accenture way, is to create more and more synergies, integration end-to-end, of the three capabilities and that's a unique differentiator in the marketplace.



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Joseph Foresi - Janney Montgomery Scott - Analyst

Thank you.

David Rowland - Accenture - CFO

Okay. Thank you, Joe.

Operator

We do have a question from the line of Tien-Tsin Huang from JPMorgan. Please go ahead.

Tien-Tsin Huang - JPMorgan - Analyst

Great. Thanks. Great growth here. I wanted to ask on the bookings side, just the 15 clients that did bookings over \$100 million. That was a big number, obviously. Can you comment on the types of deals, geographies, maybe pricing, any common theme there?

Does this, in any way, pull forward bookings for the third or fourth quarter? I'm just wondering if the big deal pipeline has been impacted now that you've signed these deals. Thanks.

David Rowland - Accenture - CFO

No, -- I'll tell you that -- I'll just kind of work backwards. We feel good about our pipeline. I mean, obviously, when you have a big bookings quarter, you convert a lot of pipeline to bookings. That's a factor. But even with that, we feel very good about our pipeline. We actually feel good about recent movement that we've seen in the larger deal category within our pipeline. Tien-Tsin, I would say just in terms of color on the bookings, it's -- I don't know if there are really any dominant themes.

I mean, it crosses the spectrum of operations, including BPO-type contracts. There's a flavor of Application Services in there. I mean, I guess stating the obvious, there's a flavor of Digital in there as well. The thing about our bookings that we were especially pleased with, and generally this would apply to the 15 clients, is the pervasiveness of the strength of the bookings. I mentioned we had sequential growth across all five of our operating groups and all three geographic areas. So I would say that there's not anything unique about the 15, and again, we feel good about our pipeline going forward.

Pierre Nanterme - Accenture - Chairman and CEO

Absolutely. What I appreciate with our results is they are broad-based, and so bookings, exactly the same pattern. If you're looking from an operating group standpoint, if you're looking from a geographic standpoint as well, you will see they are extremely well-balanced across the board. So we don't especially benefit this quarter from any outstanding performance of one part of the business compared to the others. It's very well-balanced with, of course, a lot of Digital across the board, and this is the kind of balanced growth we appreciate.

Tien-Tsin Huang - JPMorgan - Analyst

Great to hear. Thank you.

David Rowland - Accenture - CFO

Thank you.



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Operator

We have a question from the line of Bryan Keane with Deutsche Bank. Please go ahead.

Bryan Keane - Deutsche Bank - Analyst

Hi, guys, good morning.

Bryan Keane - Deutsche Bank - Analyst

Just hoping to get some color on the breakout of Consulting and Outsourcing, how to think about those on a constant-currency basis in the second half of the year? And then my second question is just on gross margins. I know we're solving for operating margins but on the gross margins, they were down 140 basis points, I think it's a little more than usual. Maybe you can just give us some color on the gross margins. Thanks.

David Rowland - Accenture - CFO

Yes. I would say, first, on your first question in terms of the second half of the year, I would think in terms of mid to high single-digit positive growth for Consulting and let's say probably high single-digit positive for Outsourcing. So that puts us on a track for the full year of probably mid to high single for Consulting again and low double-digit for Outsourcing.

In terms of the profitability point, at the risk of being redundant, I guess let me just share a few things with you beyond what I said in the script. First of all, we're very pleased with the 30 basis points of expansion. That, obviously, is at the upper end of the range that we target and it does reflect a lot of the hard work that our organization has been doing over the last four quarters.

What I really focus on when I look at our profitability are a few things. The first thing I focus on is the progression of our contract profitability. And I can tell you that our contract profitability was up compared to the same quarter last year and we continued to be pleased with the progression of contract profitability. The second thing that I look at is the overall -- the progression of the overall efficiency of our labor cost, both our Accenture personnel and our subcontractors. And we have made really good improvement in our labor cost efficiency for several quarters now, and that's in the mix as well when you look at our second quarter results. The third thing I look at is how our organization is doing in managing every dime we spend as if it's our own individually, related to non-payroll expenses. And we've done a very good job with that.

And then finally, although this is certainly not last on the list, at the end of the day, we are seeking to create headroom in our P&L so that we can invest at sufficient levels to really drive our business growth going forward. And we have a good mix of investments in our results as well. And so we always are talking about, in this forum at least, we get the questions on the gross margin and the SG&A but those are the things that I really focus on and all of those things were in the right zone relative to my expectations, creating the 30 basis points of expansion.

The last thing I'll say is gross margin, again, includes a lot of things. It's not just contract profitability. It includes recruiting, training, integration of acquisitions, onboarding costs for new hires, et cetera. So there's a lot that goes in there that ebbs and flows quarter over quarter.

Bryan Keane - Deutsche Bank - Analyst

That's helpful. Thanks for the color. And congrats on the super quarter.

David Rowland - Accenture - CFO

Great. Thank you.



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Operator

We do have a question from the line of David Koning with Baird. Please go ahead.

Dave Koning - Robert W. Baird & Company, Inc. - Analyst

Hey, guys. Nice job. And I guess -- first of all, just high level, if we think back, the last four quarters have been very good. And the prior six quarters before that have been kind of low to mid single-digit growth. I guess I'm wondering, is it just kind of the natural ebbs and flows of the business to have kind of a nice acceleration after a period of slowdown and really behind the question is, can this higher level of growth now that we've seen it for a full year kind of stay sustainable? Or have there kind of been one-off events that allowed revenue to kind of ebb higher, that, that starts to, I guess, anniversary and starts to slow down a bit? Just kind of high level, just wondering how that plays out over time.

Pierre Nanterme - Accenture - Chairman and CEO

Yes, commencing on the first part of your question and what happened these last three quarters compared to what happened before. I guess, as you know, the world has changed significantly, and we put a lot of thought at Accenture on what it takes to be relevant in this new world and to respond to the current needs of our clients. And the needs are much more around how we deal with uncertainty, how we deal with volatility, how we bring more flexible solutions, how we provide more productivity and efficiency.

And that's why we come with this vision that at the end of the day, it's all going to be digitization of the business for clients, on behalf of our clients, and the rationalization of their operations. And then we significantly aligned the Accenture strategic agenda and our investments towards these two main trends. As you know, you've seen that recently and we communicated a lot, we invested in new skills. We invested in new organizations with the creation of Accenture Consulting, Accenture Strategy, Accenture Digital, Accenture Technology and Accenture Operations. We made several strategic acquisitions, especially focusing on Digital and Operations. We acquired very deep skills. We have more than 1,000 PhDs doing algorithms in analytics at Accenture.

So this is what we did these last couple of years, and I guess that now we are getting the return on the strategy we set and on the investments we've made. We are absolutely not complacent with that, but to a great extent, we have seen a way, a path through to be relevant to a client. We committed to it and now we are executing seamlessly.

David Rowland - Accenture - CFO

I don't know that I can really add anything to that, frankly. It's -- I mean, in your question, is there anything unusual or like one-time of that nature? And the answer is absolutely not. And again, I think the thing that you would have to just look at is the broad-based nature of the growth, which speaks to the durability.

And one of the things at Investor and Analyst Day, David, if you remember, is I really talked quite a bit about our growth model and why we believe it is durable over time. And again, our enduring objective is to grow faster than the market. Now, the market growth rates change over time and our growth rates will change with it. But our enduring objective is to grow faster than the market and we're working hard to have durability in our growth model to allow us to do that.

Dave Koning - Robert W. Baird & Company, Inc. - Analyst

That's great. Thanks. I guess just one short follow-up. Just -- this quarter the Resources margin was 12.8%. It hasn't been under 15% in about six years and just on that line item, specifically, if something changed a little bit.

David Rowland - Accenture - CFO

The operating group margins can be lumpy quarter over quarter. As you know, we have been working hard to position our Resources business for growth and congratulations to our team for doing that. I also called out, if you extracted this from the comments I made on Resources, the growth in Resources right now is coming really exclusively from our outsourcing-related services, Operations and Application Services. And so you see a little bit of mix there as well.



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But I'm not particularly concerned about the profitability in a single quarter. We have good profit potential in Resources going forward and over time, we will tune the levers to get it back to the right level.

Dave Koning - *Robert W. Baird & Company, Inc. - Analyst*

Great. Thank you.

David Rowland - *Accenture - CFO*

All right. Thank you.

Operator

We do have a question from the line of Jim Schneider with Goldman Sachs. Please go ahead.

Jim Schneider - *Goldman Sachs - Analyst*

Good morning. Thanks for taking my question. I was wondering if you could maybe give us a little bit of color on some of the transactional, short duration business and how those bookings are tracking? And more importantly, going forward, what inning do you think we're in cyclically in terms of that improvement?

David Rowland - *Accenture - CFO*

We've definitely seen an increasing volume of the smaller short-term type projects. And of course, that's reflected in our Consulting growth. And I would say that the drivers of that broadly anchor back to the themes that Pierre has talked about so often.

You look at the Digital space and the nature of the Digital work is that it really lends itself to this agile, quick-turn development and deployment of capability. But also on the cost rationalization agenda, that drives a lot of demand for our Strategy practice, for our Consulting practice, what in the past, we've referred to, as Management Consulting, as an example, working with our companies to develop a strategic cost map for cost rationalization and then getting into the implementation of that. And we see some of that in shorter, smaller projects which are contracted in phases over a period of time. So those are the kinds of things that are in the mix. Pierre may add some additional flavor to that.

Pierre Nanterme - *Accenture - Chairman and CEO*

Yes, indeed. I think what is interesting to see in the mix of work we are selling is we have, at the same time—and as you know, we are quite famous for these large-scale transformation programs, and again, this year, as mentioned by David, we had a few large-scale opportunities at clients—and at the same time, especially with the rise of Digital, you have more, what I would call, higher-velocity projects.

But I think what we have now in our portfolio of bookings is these large-scale transactions, which are clearly the kind of savoir faire, unique savoir faire of Accenture, these kind of end-to-end, combining all our capabilities to deliver transformation, plus the higher-velocity programs, more Digital-related services driven, and this is this mix which I think has impacted on balance the average duration of our bookings.

David Rowland - *Accenture - CFO*

Does that help, Jim?



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Jim Schneider - Goldman Sachs - Analyst

Yes, it does, definitely does, thank you. Then maybe as a follow-up, just -- you're doing well on the cost control side with both sales and marketing and G&A dollars down in absolute terms on a year-over-year basis. Any color on how much of that is FX versus organic and then some of the initiatives you're doing to kind of keep those expenses under control?

David Rowland - Accenture - CFO

Yes, I think -- it's real cost savings. I mean, one big area is -- we've talked about for years, as you'll know, but we are always focused on continuing to look for improvements in our sales efficiency and our channel cost. And so we have made improvements in that area under the leadership of our COO, Jo Deblaere.

We also have an ongoing -- really, it's an ongoing transformation agenda for each of our corporate functions. We very much do to ourselves -- I should say we leverage the same kind of capabilities that we sell to our clients internally. And so we use BPO concepts, for example, across HR and finance. And we have more room to go. It's an ongoing journey for us, just as it is for our clients and we've made improvements in our, what we call our corporate function costs as well. Those are real savings, not FX related, and we'll continue to focus on that going forward. So those are a couple of examples.

Jim Schneider - Goldman Sachs - Analyst

Great. Thank you.

David Rowland - Accenture - CFO

All right. Thank you.

Operator

And we do have a question from the line of David Grossman with Stifel Financial. Please go ahead.

David Grossman - Stifel Nicolaus - Analyst

Thank you. So this is the second consecutive quarter that you beat your revenue guidance and you've raised the year. Can you help us understand whether that was, again, relative to your guidance, was faster backlog conversion or some of the smaller, higher velocity projects that you just mentioned? And again, I know you said the strength was broad-based across geographies and verticals. But I'm just wondering, again, relative to kind of where you started the year, whether that's more relevant to a particular vertical or a particular geography?

David Rowland - Accenture - CFO

Yes, it's interesting because we look quite a bit at where did we come in better than we expected. And not to be too simplistic, but the answer is that all five of our operating groups, every single one of them, came in stronger than what we and they expected when we provided guidance in December.

And again, I think it gets to -- part of the deal is that when you're on a revenue ramp, it can be a little bit more difficult to predict the slope of the ramp because, for example, we can be quite confident in the work activity but yet we have to also think about, our operating groups do, the availability of the resources, the timing the projects get started, et cetera. So at the end of the day, all five of our operating groups exceeded. So again, it was broad-based. And I would say that it was more in our Consulting-related services than our Outsourcing. So Consulting came in stronger and part of that, again, goes back to this Digital theme that we talk about as a driver of Consulting. But also we see more activity across our other Consulting type services, both Strategy and our core Consulting business, Management Consulting, et cetera.

So it was, really, Consulting came in better and all five operating groups came in better. Those were really the drivers. And I do think that the higher volume of smaller contracts is in the mix of everything I said, really, across the board.

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David Grossman - Stifel Nicolaus - Analyst

Okay. Thank you for that. And then just secondly, I think you mentioned the EPS impact of currency at the end of your prepared remarks. Could you just repeat what the impact, your expectation for the EPS impacts for the year?

David Rowland - Accenture - CFO

Yes. So what I said specifically is that there were really two factors that we used to adjust the range. One is the higher revenue, which we increased revenue and we narrowed to a 2-point range, so therefore, we narrowed the EPS range. And the second factor was the FX. Plain and simply, those two factors. And what I said is that absent the FX headwind, which impacted our EPS by \$0.14, so FX impacted by \$0.14, our revenue would have increased \$0.10 to \$0.14, absent the impact of -- I'm sorry, our EPS would have increased \$0.10 to \$0.14 absent the \$0.14 FX headwind.

David Grossman - Stifel Nicolaus - Analyst

Does that include the first quarter impact as well or is that just from the second quarter on?

David Rowland - Accenture - CFO

That's from the second quarter on, the revised full-year guidance.

David Grossman - Stifel Nicolaus - Analyst

Okay. Because you had a fairly significant FX impact in the first quarter as well, right?

David Rowland - Accenture - CFO

Yes. If you look -- I mean, if you look at where we started the year versus -- so if you take our initial guidance with where we are now, absent the FX headwind, we've increased our guidance \$0.16 to \$0.20.

David Grossman - Stifel Nicolaus - Analyst

Okay. Got it.

David Rowland - Accenture - CFO

And the difference is all FX.

David Grossman - Stifel Nicolaus - Analyst

Okay. Good. Thank you.

David Rowland - Accenture - CFO

Okay, thank you.



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Operator

We do have a question from the line of Charlie Brennan from Credit Suisse. Please go ahead.

David Rowland - Accenture - CFO

Hello, Charlie.

Charlie Brennan - Credit Suisse - Analyst

Thanks. I've got two questions. Hi there. I've got two questions, if that's possible. The first is just on DSOs at the companies --

David Rowland - Accenture - CFO

I was going to say we'll judge whether we give you a second question, based on the first. (laughter) Go ahead.

Charlie Brennan - Credit Suisse - Analyst

All right. Okay. Okay. I'll go easy then. A couple of the companies that I've been speaking to in Europe have been suggesting there's incremental pressure from clients for more favorable DSO terms. I was wondering if you can just put that in context with the two-day move we've seen in these results and maybe can you give us some medium-term expectations of where you would like to see DSOs in two to three years' time?

David Rowland - Accenture - CFO

Yes, there's no doubt that the environment is tougher on commercial terms and conditions, and billing and collections are really right in the mix of that. So we've seen that trend certainly. We had always signaled, by the way, that the DSO levels that we've had at some point in the recent years past, when they had gotten down in the low 30s, that we had always signaled that that was likely not sustainable over time and that our DSOs would creep back up to the mid to even high 30 range.

And so that pattern has played out exactly as we had expected and anticipated. So we're very comfortable with where we are. I think that, by and large, if you look at the last few quarters, our DSOs been relatively stable. It was up a little. Now it's down a couple of days. So we're in the range that we expect to be, in the range that we expect to be, let's say, for the rest of this year. And it's an area that we are always focused on and have been very good at managing our billing and collections. So I would just say that at least for this year, we're in the range of what we expect. Okay?

Charlie Brennan - Credit Suisse - Analyst

If we look out two or three years, does high 30s feel like the right number or is it the type of situation you're just taking every year as it comes?

David Rowland - Accenture - CFO

I mean, it's hard to say. I'm not going to look out a few years, really. I think what we've said, again, is that we could certainly see DSOs creeping up to the mid to upper 30s and that's where we're at. Okay? Thank you, Charlie.

Charlie Brennan - Credit Suisse - Analyst

And just -- all right. Okay.



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David Rowland - Accenture - CFO

Thank you. Appreciate it.

Operator

And we do have a question from the line of David Togut with Evercore ISI. Please go ahead.

David Togut - Evercore ISI - Analyst

Thank you and good morning.

David Rowland - Accenture - CFO

Hello, David.

David Togut - Evercore ISI - Analyst

Could you update us, David, on pricing across Consulting and Outsourcing, and in particular, perhaps application maintenance and development, where I think you called out, perhaps a year-and-a-half ago, some increasing pricing pressure, where you stand today?

David Rowland - Accenture - CFO

I would say, overall, we are -- we're pleased with the way our pricing has progressed since this same time last year. We saw, actually, improvement in our pricing in the second quarter. I would be clear, though, that the environment continues to be a competitive environment, no doubt. But we have seen some progression in pricing in certain parts of our business and overall, we were very pleased with the margin quality of the \$9.4 billion bookings.

I would say that in Application Services, again, to be clear, David, when we talk about pricing, we're talking about the margin percentage on the contracts that we signed, and in Application Services, we've also seen positive progression in the last six months.

David Togut - Evercore ISI - Analyst

When you talk about improved pricing and I think Pierre mentioned good pricing in Digital, are you seeing material pricing increases in Digital Services currently?

David Rowland - Accenture - CFO

I would say that we see differentiated pricing in Digital relative to other parts of our business. And I think I'd leave it at that unless, Pierre, you have any --

Pierre Nanterme - Accenture - Chairman and CEO

I think Digital-related services, as long as you can bring differentiated solutions, especially the ones we invested a lot around, is commanding a better price compared to the rest of the portfolio. I mean, this is what it is.

David Rowland - Accenture - CFO

I mean, it's all about -- in areas where we have a leading capability, a leading, differentiated capability, then typically we get good pricing. We are in a very strong position in Digital with our offerings, our skills capabilities, et cetera.



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David Togut - Evercore ISI - Analyst

Thank you very much.

David Rowland - Accenture - CFO

Thank you.

Operator

We do have a question from the line of Sara Gubins with Bank of America. Please go ahead.

Sara Gubins - BofA Merrill Lynch - Analyst

Hi, thanks. Good morning.

Sara Gubins - BofA Merrill Lynch - Analyst

You mentioned in your prepared remarks that you're gaining significant market share. Could you talk about where you think that's coming from?

Pierre Nanterme - Accenture - Chairman and CEO

We -- I guess we're gaining market share, certainly, in all the three regions where we are operating. So this is, again, quite well balanced. Given our strong double-digit growth now for almost four years in a row in the US, this is probably a place where we are accelerating our gain. And I guess we are -- we're probably gaining against, clearly, the more traditional players in our basket of competitors. You know all of them. And you know their results. And we are growing on par with the best of the pure players in each of the businesses we're operating in.

But so far indeed, market share gains are quite broad-based. I mean, we have [12] [corrected] of our industries out of 19, growing double-digit. And another [three] [corrected] with high-single digit growth. So I guess that we are gaining market share in many of our industries. I mentioned in Europe, as an illustration, that we have double-digit growth in Germany, in the Netherlands, and again, I'm sure we are gaining significant market share, given the market over there, when you're growing double-digit.

So it's quite widespread in many -- again, double-digit growth in Japan, in Brazil, in Australia. So in all places where we have double-digit growth, we are gaining market share, technically. So we're pleased with that.

Sara Gubins - BofA Merrill Lynch - Analyst

And then could you give us an update on the estimated contribution of acquisitions to FY15 revenue? I think you were talking about 1% to 1.5% contribution? Thanks.

David Rowland - Accenture - CFO

Yes, and really no change from what I said last quarter on that.

Sara Gubins - BofA Merrill Lynch - Analyst

Great. Thank you.



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David Rowland - Accenture - CFO

Thank you, Sara.

Operator

We do have a question from the line of Edward Caso with Wells Fargo. Please go ahead.

David Rowland - Accenture - CFO

Hello, Ed.

Edward Caso - Wells Fargo Securities, LLC - Analyst

Good morning. Congratulations. My question revolves around sort of nonlinear growth, the headcount 323,000, you're going to add 90,000 fresh bodies this year. Where do you stand with creating BPaaS opportunities and other sort of volume or outcome-based contracts? Thanks.

Pierre Nanterme - Accenture - Chairman and CEO

We continue working on this, to create more bifurcation between headcount and revenues. I think we are making some good progress even if we are probably still at the beginning of this journey, if you will.

But I've been recently in India, as an illustration, visiting our BPO practice and looking at all the innovations we are bringing, especially around automation, especially around robotics and especially around cognitive computing. And if you bring these three capabilities all together, we have, indeed, the unique opportunity, it's happening as we speak in our operations in India, to bring a level of productivity and efficiency in our business process operations, where we start seeing this bifurcation between headcount growth and revenue growth, and we might expect some acceleration in 2016 and beyond. So it's still early days regarding the leading-edge characteristics of these technologies. But I'm feeling extremely positive and even more important, Mike Salvino, who is leading our Accenture Operations business, is feeling extremely confident that we have the tools and techniques to move to the next level of productivity.

Edward Caso - Wells Fargo Securities, LLC - Analyst

My other question is now that you're seeing improved local currency growth and everything seems to be clicking, will you dial back your M&A investments that you had stepped up in recent years?

Pierre Nanterme - Accenture - Chairman and CEO

No.

Edward Caso - Wells Fargo Securities, LLC - Analyst

Thank you.

Pierre Nanterme - Accenture - Chairman and CEO

I mean, I could elaborate but I think the answer is that -- well, I'll elaborate that we will continue to invest to acquire, build and develop differentiated skills and capabilities, especially around Digital and Operations. And we've been very successful to do it up to now, and we will now continue with that agenda.



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KC McClure - Accenture - Managing Director and Head of IR

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

Operator

Thank you. That last question comes from the line of Darrin Peller with Barclays, please go ahead.

Darrin Peller - Barclays Capital - Analyst

Thanks guys. Look, I want to just start off quickly on Resources, and then follow-up on Europe. On Resources, again, I know you said that obviously, there was some timing around margins. But really the growth rate, just even though it's only 6%, accelerating, and it was a pretty big headwind for you guys. Number one, do you see enough bookings or contracts there to actually continue that acceleration despite oil prices and everything we're seeing in the industry so that could become more and more of maybe a tailwind.

And then secondly, on Europe, I just wanted to ask about the offshore labor arbitrage opportunity there. I know for a while, you guys have been a lot more onshore outsourcing-oriented in Europe, as the -- that was really the way to operate there. We know now there's a lot of real demand there for more offshoring and I know you have the GDN to do so. I'm just curious what you're seeing on that front? That could be, I think, a long, multi-year opportunity?

David Rowland - Accenture - CFO

I'll comment on Resources, and maybe let Pierre comment on Europe. On Resources, we do feel good about how the business has been repositioned for sustained growth now, going forward. The bookings have been very good in terms of their book-to-bill on a year-to-date basis and that speaks well to the growth opportunities going forward.

I think I mentioned that when you look at Resources, they had growth in all three geographic areas and in all of the industries except Energy, but even in Energy, we actually had very strong double-digit growth in our outsourcing-related services. So Operations and Application Services. And so what we're finding is that even with the pressures in Energy, we really are helping our clients with our Application Services and Operations services as they work on their cost optimization, cost rationalization agenda. We think that we are positioned for sustained positive growth in Resources, even with the recent challenges in Energy.

Darrin Peller - Barclays Capital - Analyst

That's great.

Pierre Nanterme - Accenture - Chairman and CEO

And to add color on this, in Resources we're covering many industries. If you take Chemicals, which is a very important industry for us, we're growing more than 20%. So you need to look at it from a portfolio standpoint.

From a European standpoint, you're absolutely right to mention that the outsourcing market is vibrant. Again, our clients in Europe are looking for more efficiency and more productivity. And if I look at Digital, digitization versus rationalization, probably the US would be a bit more on digitization, when Europe will be a bit more on rationalization, which is opening a good space for the outsourcing-related work.

And again, we benefit from the diversity of our Global Delivery Network, and we can come with our clients, and you're right to mention that you need to be sometimes a little bit more balanced and subtle in the way you're driving outsourcing in Europe with respect to the different nationalities, labor markets and environment. The mix, it's more about the right sourcing and the smart sourcing, with a good mix of onshore, offshore and we benefit at Accenture from having a very diverse Global Delivery Network with, of course, resources from an offshore standpoint, especially in India and the Philippines, but as well, a network of near-shore centers, which is helping us to get to what we believe is the right sourcing approach for our clients. So I'm feeling extremely confident and based on the results, our Outsourcing business in Europe is doing well.



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Darrin Peller - *Barclays Capital - Analyst*

Okay. Thanks, guys.

David Rowland - *Accenture - CFO*

Thank you.

Pierre Nanterme - *Accenture - Chairman and CEO*

Thank you to all of you. Thanks a lot for taking the time and participating in our call today. As you've seen, with half of the fiscal year behind us, it's clear, we have built strong momentum in our business, and it's clear as well that we are gaining significant market share.

We are seeing, clearly, the return on the investments we've made, particularly in Digital and Operations. And we will continue to execute our growth strategy to bring innovative and differentiated services to the marketplace.

In closing, I want to thank the 323,000 women and men of Accenture for their dedication, their passion and their commitment to delivering value for our clients each and every day in the marketplace. Thank you to all of you.

We look forward to talking with you again next quarter. In the meantime, if you have any questions, please feel free to call KC. All the best to all of you.

Operator

Ladies and gentlemen, this conference will be available for replay after 10:30 today through June 25. You may access the AT&T Teleconference Replay System at any time by dialing 1-800-475-6701, and entering the access code 353-090.

International participants may dial 320-365-3844, and those numbers again are 1-800-475-6701 and 320-365-3844, again, entering the access code 353-090. That does conclude your conference for today. Thank you for your participation and for using the AT&T Executive Teleconference Service. You may now disconnect.

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