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ACN – ACCENTURE'S Q3 FISCAL 2015 EARNINGS
CONFERENCE CALL

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Accenture's Q3 FY '15 Earnings Conference Call

CORPORATE PARTICIPANTS

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

Pierre Nanterme *Accenture - Chairman and CEO*

David Rowland *Accenture - CFO*

CONFERENCE CALL PARTICIPANTS

Bryan Keane *Deutsche Bank - Analyst*

Tien-tsin Huang *JPMorgan - Analyst*

Brian Essex *Morgan Stanley - Analyst*

Lou Miscioscia *CLSA Limited - Analyst*

Lisa Ellis Bernstein *- Analyst*

James Schneider *Goldman Sachs - Analyst*

Dan Perlin *RBC Capital Markets - Analyst*

James Friedman *Susquehanna Financial Group / SIG - Analyst*

Jason Kupferberg *Jefferies LLC - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Accenture's Third Quarter FY15 Earnings Call.

(Operator Instructions)

As a reminder, this conference is being recorded. I'd now like to turn the call over to our host, Ms. KC McClure. Please go ahead.

KC McClure - Accenture - Managing Director, Head of IR

Thank you, Brad, and thanks, everyone, for joining us today on our Third 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 third quarter. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the fourth 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.

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.



Accenture's Q3 FY '15 Earnings Conference Call

Pierre Nanterme - Accenture - Chairman and CEO

Thank you, KC. Thanks, everyone, for joining us today. We delivered excellent results for the third quarter, building on the momentum we created in the first half of the year. I'm particularly pleased that our strong third-quarter performance was again broad-based across the different dimensions of our business. We gained substantial market share and accelerated our growth in digital-related services. Here are a few highlights:

- We delivered strong new bookings of \$8.5 billion, bringing us to \$25.5 billion year-to-date.
- We generated very strong revenue growth of 10% in local currency, with growth across all five operating groups and all three geographic regions.
- We delivered earnings per share of \$1.30 on an adjusted basis, a 3% increase.
- We expanded operating margin 20 basis points to 15.4% on an adjusted basis.
- We generated free cash flow of \$1.3 billion, and our balance sheets remained very strong, ending the quarter with a cash balance of \$4 billion.
- And we returned \$1.2 billion in cash to shareholders through share repurchases and dividends.

So, we have delivered very strong performance for the third quarter, and as we enter the fourth quarter, I feel very good about where we are and what we have achieved for the year to date. Now let me hand it over to David for more details. Over to you, David.

David Rowland - Accenture - CFO

Thanks, Pierre, and thanks to all of you for joining us on today's call. As you heard in Pierre's comments, the strong momentum we established in our business continued in the third quarter as we delivered excellent financial results. We're very pleased with the ongoing execution of our growth strategy, underpinned by strong operational discipline. The underlying business drivers and key themes in the third quarter were very consistent with the past few quarters. And importantly, we again delivered on all three imperatives for driving shareholder value.

Starting with durable revenue growth, even with the tougher compare this quarter, we delivered 10% growth in local currency, which represents the third consecutive quarter of double-digit growth. Once again our broad-based growth demonstrates the strength of our diversified business and our ability to drive growth above the market, resulting in increased market share.

With respect to sustainable operating margin expansion, we continued to drive value from our strong growth by expanding operating margin 20 basis points while continuing to invest in our business and our people. And finally, regarding strong cash flow and disciplined capital allocation, we generated \$1.3 billion in free cash flow and returned roughly \$1.2 billion to shareholders through repurchases and dividends.

We're on track to deliver free cash flow in excess of net income for the full year and while we continue our disciplined approach of returning cash to shareholders, we also remain focused on investing in our business to acquire scale and capabilities in key growth areas. So, we're very pleased with the third quarter, as our results continue to demonstrate the durability of our growth, profitability and cash flows.

With that said, let's now turn to some of the details starting with new bookings. New bookings were \$8.5 billion for the quarter. Consulting bookings were the second-highest ever at \$4.5 billion, reflecting a book-to-bill of 1.1. Outsourcing bookings were \$4 billion, also with a book-to-bill of 1.1. We were pleased with the volume of bookings for the quarter, especially when you can consider the significant headwind due to foreign exchange impacts.

The major themes in our new bookings were consistent with last quarter. We saw continued strong demand for both digital-related services and Operations, and new bookings for Application Services and consulting-related services landed within our book-to-bill target range. Finally, we had 12 clients with bookings in excess of \$100 million, giving us 33 year to date, which signifies the unique and trusted relationship that we have with many of the largest companies in the world.

Turning now to revenues. Net revenues for the quarter were \$7.8 billion, slightly positive growth in U.S. dollars, and an increase of 10% in local currency, reflecting a negative 10% foreign-exchange impact compared to the negative 11% impact provided in our business outlook last quarter. Adjusting for the lower FX headwind, we still came in well above the top end of our guided range.



Accenture's Q3 FY '15 Earnings Conference Call

Consulting revenues for the quarter were \$4.1 billion, up 1% in USD and 11% in local currency. Outsourcing revenues were \$3.7 billion, flat in USD and an increase of 10% in local currency.

Looking broadly at the major drivers of revenue growth in the quarter, the trends we've seen in recent quarters remain very consistent. The dominant drivers were very strong double-digit growth in digital-related services and Operations. Application Services continued to grow in a range consistent with our overall rate of growth, and Strategy and Consulting Services combined continued to grow in mid single digits.

Turning to the operating groups. Communications, Media & Technology continued to lead all operating groups with 17% growth in the quarter. While growth continued to be broad-based, it was most significant in North America, the Growth Markets and Communications globally. The drivers across CMT continue to be digital-related services, cost rationalization, several large transformational projects and demand for network-related services.

H&PS grew 10% in the quarter. We again saw significant growth in our Health business, particularly in the public sector at U.S. Federal clients and our Medicaid-related projects at state clients. Digital-related services and Operations, particularly BPO, were also strong growth drivers.

Financial Services also grew 10%, with significant growth in both Capital Markets and Insurance. Clients continue to be focused on three main areas: Risk and regulatory, cost optimization, and digital-related services, especially in distribution and marketing.

Products grew by 8%, led by very strong growth in Consumer Goods & Services, Life Sciences and Automotive. Clients continue to be focused on digital-related services and operational effectiveness as they position themselves to be more competitive in the marketplace.

Resources grew 6%, continuing the recent trend of positive growth in all three geographic regions and all industries except Energy, with particularly strong growth in Utilities. The pattern of broad-based growth for Outsourcing-related services continued as clients remained focused on operational efficiency and cost rationalization.

Moving down the income statement. Gross margin for the quarter was 32.5%, compared with 32.8% for the same period last year, down 30 basis points. Sales and marketing expense for the quarter was 11.3% of net revenues, compared with 11.6% of net revenues for the third quarter last year, down 30 basis points. General and administrative expense was 5.8% of net revenues compared with 5.9% of net revenues for the third quarter last year, down 10 basis points.

As I mentioned in quarter two, this quarter we recorded a non-cash settlement charge as a result of an offer to former employees to receive a voluntary lump-sum cash payment from our U.S. pension plan. This \$64 million charge impacted quarter three operating margin by 80 basis points and diluted earnings per share by \$0.06. The following comparisons exclude this impact and reflect adjusted results.

Operating income on an adjusted basis was \$1.2 billion in the third quarter, reflecting a 15.4% operating margin, up 20 basis points compared with quarter three last year. Our adjusted effective tax rate for the quarter was 25.7%, compared with an effective tax rate of 25% for the third quarter last year.

Net income on an adjusted basis was \$889 million for the third quarter, compared with net income of \$882 million for the same quarter last year. Our diluted earnings per share on an adjusted basis were \$1.30, compared with EPS of \$1.26 in the third quarter last year. This reflects a 3% year-over-year increase.

Turning to DSOs, our days services outstanding continue to be industry-leading. They were 37 days, up from 35 days last quarter. Free cash flow for the quarter was \$1.3 billion, resulting from cash generated by operating activities of \$1.4 billion, net of property and equipment additions of \$114 million.

Moving to our level of cash, our cash balance at May 31 was \$4 billion, compared with \$4.9 billion at August 31 last year, down \$900 million as we've returned over \$3.1 billion to shareholders through repurchases and dividends year to date.

Moving to some other key operational metrics, we ended the quarter with a global headcount of about 336,000 people and we now have approximately 237,000 people in our Global Delivery Network.

In quarter three our utilization was 90%, down from 91% last quarter. Attrition, which excludes involuntary terminations, was 15% compared to 14% in both quarter two and in the same period last year. Lastly, we now expect that approximately 95,000 people will join our company in FY15.

So turning to our ongoing objective to return cash to shareholders, in the third quarter, we repurchased or redeemed approximately 5.6 million shares for \$518 million at an average price of \$93.11 per share. Year to date, we purchased 20.8 million shares for approximately \$1.8 billion at an average price of \$86.16 per share. At May 31, we had approximately \$3.2 billion of share repurchase authority remaining.



Accenture's Q3 FY '15 Earnings Conference Call

Finally, as Pierre mentioned, on May 15, 2015, we made our second semi-annual dividend payment for FY15 in the amount of \$1.02 per share, bringing total dividend payments for the fiscal year to approximately \$1.4 billion.

So with three quarters in the books, we're extremely pleased with our results and are now focused on quarter four and closing out a strong year. As always, we're working hard to continue to manage our business with a high degree of rigor and discipline which enables us to deliver on our near-term objectives while also investing at scale for long-term market leadership.

Now let me turn it back to Pierre.

Pierre Nanterme - Accenture - Chairman and CEO

Thank you, David. Our strong results for the quarter and year to date demonstrate that we are benefiting from the investments we have made in key growth areas, such as digital, and I'm very pleased with the leadership position we are establishing in this important part of our business. In the third quarter, we delivered more than 30% growth in local currency in digital-related services, which now account for more than 20% of our total revenues.

Demand for digital is pervasive across the entire business, and we are leveraging our digital capabilities in the services we provide to clients in every industry around the world. Here are a few examples:

We are helping Pizza Hut build and operate a new cloud-based digital platform to transform the customer experience and boost online sales. The new platform will also enable Pizza Hut to expand its digital marketing capabilities through enhanced customer segmentation, analytics and mobility.

We are working with a leading global shipbuilding company to deploy an Internet of Things connected platform to enable real-time monitoring of its shipping fleet. We will use over 100 different kinds of sensors to provide predictive maintenance and spare parts optimization.

And we are helping Rio Tinto, the global mining company, accelerate its journey to become a digital business by migrating its enterprise IT systems to an as-a-service solution on the Accenture Cloud Platform. Rio Tinto expects to realize significant cost savings, as well as increased agility, from the consumption-based pricing model.

At the same time, we continue to invest to further differentiate Accenture and to scale our capabilities in order to capture new growth opportunities in the marketplace.

In Accenture Strategy, we announced two acquisitions in the third quarter that further enhance our capabilities. We acquired Axia Limited, a U.S.-based strategy services provider with expertise in the life sciences, health and consumer goods industries. And in May, we announced the acquisition of the Javelin Group, a U.K.-based strategy consulting provider with significant digital expertise in the retail industry.

In Accenture Digital, we are rapidly scaling our capabilities to bring innovative solutions to clients to enable digital transformation. Just last week, we announced that we are joining forces with Fast Retailing in Japan to develop digitally enabled consumer services across the retailer's seven global brands including UNIQLO. Through this joint initiative, we are developing new digital business models to drive transformation in the retail industry and beyond.

We opened the Accenture Interactive Innovation Center at our Technology Lab in Sophia-Antipolis in France. This is all about providing clients with an immersive experience that brings to life the latest digital technologies for engaging with customers in new and innovative ways.

We are expanding Fjord, the leading design and innovation group within Accenture Interactive. We recently opened new design studios in Sao Palo, Milan and Sydney, and now have 15 Fjord design studios around the world.

And Accenture Mobility is one of the world's leading developers of mobile apps. Leveraging the capabilities of our global delivery centers, we have now developed over 1,000 apps across nearly all industries.

Turning to the geographic dimension of our business, in the third quarter we delivered strong growth in local currency and gained significant market share across all three of our geographic regions. In North America, we delivered very strong 12% revenue growth in local currency, driven by continued double-digit growth in the United States, where we are strengthening our position as the market leader.

In Europe, I'm very pleased with our growth of 7% in local currency, driven primarily by Spain, the United Kingdom, Germany and the Netherlands. And in Growth Markets, we delivered very strong revenue growth of 13% in local currency, driven by double-digit growth in Japan, Australia and Brazil, our largest markets in this region.



Accenture's Q3 FY '15 Earnings Conference Call

So, with the first three quarters of the year behind us, I'm extremely pleased with our results. We have excellent momentum in our business and I feel confident that we are well-positioned to deliver a very strong fiscal year '15. In a market environment that remains uncertain and fast-changing, innovation, agility and flexibility are more than ever the name of the game, and we remain extraordinarily focused on executing our strategy to deliver sustainable, profitable growth.

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 now turn to our business outlook. For the fourth quarter of FY15 we expect revenues to be in the range of \$7.45 billion to \$7.70 billion. This assumes the impact of foreign exchange will be a negative 10% compared to the fourth quarter of FY14.

For the full FY15, based upon how rates have been trending over the last few weeks, we now assume the impact of FX on our results in U.S. dollars will be negative 7.5% compared to FY14. For the full FY15, we now expect our net revenue to be in the range of 9% to 10% growth in local currency over FY14. For the full FY15, we continue to expect new bookings to be in the range of \$33 billion to \$35 billion.

As I mentioned previously, in May, we recorded a non-cash settlement charge of \$64 million, which will impact full-year 2015 operating margin by 20 basis points and diluted earnings per share by \$0.06. Our guidance for full-year FY15 excludes this impact.

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. On an adjusted basis, 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 \$4.73 to \$4.78, or 5% to 6% growth over FY14 results. This EPS range includes a \$0.02 increase due to the lower FX headwind and a \$0.05 increase to the lower end of the range as a result of narrowing the revenue growth range.

Turning to cash flow, for the full FY15 we now expect operating cash flow to be in the range of \$3.8 billion to \$4.1 billion, property and equipment additions to now be approximately \$400 million, and we continue to expect free cash flow 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.

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

KC McClure - Accenture - Managing Director, Head of IR

Thanks, David. I'd 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

Thank you. (Operator Instructions)

Our first question will come from the line of Bryan Keane with Deutsche Bank.

Bryan Keane - Deutsche Bank - Analyst

Hi guys, good morning. Pretty good results here. Looks very similar to last quarter. I saw that digital accelerated though, up towards 30% on a constant-currency basis. I think that was up from 20%. Just curious if that offset anything that slowed or anything that was weaker than last quarter?



Accenture's Q3 FY '15 Earnings Conference Call

David Rowland - Accenture - CFO

No, I don't think it's indicative of a weakness in another area. Last quarter we said digital growth was over 20%, and we did see an uptick. And I think some of the drivers behind that were pretty evident in Pierre's comments as he described our digital business and how it continues to evolve in a very positive way.

Pierre Nanterme - Accenture - Chairman and CEO

And when we talk about digital-related services, we are talking about all of the digital activities we have across our five businesses: Accenture Strategy, Accenture Consulting, Accenture Digital, Accenture Technology and Accenture Operations. So all of our five businesses are growing across the board, with an accelerated growth in digital-related services.

Bryan Keane - Deutsche Bank - Analyst

Okay. And just as a follow-up, I saw the operating cash flow adjustment for the full year, just curious what caused that? And then how much did acquisitions contribute to the revenue growth? Thanks.

David Rowland - Accenture - CFO

The acquisition growth continues to be in the range of what we've talked about before, so in that 1% to 1.5% range. On the cash flow, there's really not anything notable. There's some puts and takes in there, but really not anything significant to note.

Bryan Keane - Deutsche Bank - Analyst

Okay, thanks so much.

Operator

Our next question comes from Tien-tsin Huang with JPMorgan.

Tien-tsin Huang - JPMorgan - Analyst

Good morning. Great results. I'll ask on the gross margin, if that's okay. It was definitely better than we expected. I'm just curious if this trend is sustainable, if we could go back to what we saw in the first half? I guess ultimately trying to gauge if some of these drivers like contract profitability and use of subcontractors are performing better?

David Rowland - Accenture - CFO

Yes, hey, good morning. You know, again, when I look at profitability -- and I don't mean to be redundant on this, but let me just restate the things that I focus on in the context of our quarter three results. So the first thing that I look at is the trend in our contract profitability and we were pleased with our contract profitability. It was up year-over-year for both Consulting and Outsourcing and it was up year-over-year in total. And that has an influencing factor on gross margin, but it's certainly not the only influencing factor.

The second thing that I look at for our overall profitability is the evolution of our labor costs in relation to our revenue growth. And that pattern continued, as we've seen in the first half of this year, where we are very pleased with being able to manage our labor costs efficiently. But I should add, at the same time, investing in our people through actions that we have taken through the year, including in the third quarter, with respect to promotions and salary increases. And then I really look at those two things primarily in the context of are those things progressing to the point that we're creating head room so that we can invest in our business while, at the same time, drive the profitability, our GAAP margin expansion in this quarter, our adjusted margin expansion, to support the objectives that we communicate externally.

Accenture's Q3 FY '15 Earnings Conference Call

And all of those things happened as planned in the third quarter. So in terms of evolution of gross margin, as you know, we don't -- I don't really guide or make forward-looking statements on gross margin because we focus on operating margin. It does ebb and flow, in different quarters across the year, but if we have the right evolution of contract profitability and the right evolution of our payroll efficiency, then, frankly, everything is clicking from a profitability standpoint and that's what we focus on.

Tien-tsin Huang - JPMorgan - Analyst

All right, great. No, that's perfect. That's helpful context. As my follow-up, I'm going to echo Brian on acquisitions, I wanted to ask your philosophy, if we should expect more of the same of buying or tucking in some of these smaller businesses? And I'm curious -- I know culture is very important. Any surprises in terms of retention of some of the people that we brought in with some of these deals? So just trying to understand the retention and how the culture is meshing? And then also if the philosophy could change or could you do larger deals given the big appetite on acquisitions? Thanks.

David Rowland - Accenture - CFO

Good question. We have overall been very pleased with our experience with companies that we've acquired really over the last two to three years. I'll remind you that at this point we have acquired roughly 45 companies or so. So we're not novices at -- I'm talking about over, let's say, over the last two and a half to three years. So we have become very experienced in executing our inorganic strategy. And an important part of that is the approach that we take to integrating and assimilating the companies that we buy. And we're fundamentally a people-based business, so we're especially tuned into that with respect to integrating and assimilating the people in these companies that we acquire.

Our experience has been positive in terms of the retention and assimilating them into our culture very quickly. And again, as we've mentioned before, the financial returns have been certainly in line with our expectations and in many cases better.

Pierre Nanterme - Accenture - Chairman and CEO

Yes, absolutely. We all have been very clear on our acquisition strategy. Do we want to leverage our cash to make acquisitions in order to further enhance our capabilities and get more differentiation? The answer is yes. We are looking in acquisitions in some very specific areas, as you know, from deep expertise in consulting and strategy from an industry standpoint, to digital native organizations, to companies with a deep footprint in operations, I'm thinking about Procurian as an illustration. And we will continue to do so and look at the kind of acquisitions we believe we could get an excellent return, and they're going to further improve our differentiation, our competitiveness, and our relevance in the business. And so far, frankly, I'm very pleased. I found even David a bit neutral on this -- less neutral, I think we have an excellent return on the investments we've made.

It is making an impact in the marketplace, and I'm thinking about Fjord, I'm thinking about Acquity, I'm thinking about Procurian, where clearly we are taking leading positions in these different areas, not only we have a good retention, but we are scaling further the acquisitions we made. I announced on this call that we are significantly and rapidly scaling Fjord, our design and innovation studio in Accenture Interactive. We are now 15 design studios around the world and more to come, so we will continue executing this strategy against the parameters we set and we will continue to further improve Accenture.

David Rowland - Accenture - CFO

Thanks, Tien-tsin.

Operator

And our next question comes from Brian Essex with Morgan Stanley.

David Rowland - Accenture - CFO

Good morning, Brian.



Accenture's Q3 FY '15 Earnings Conference Call

Brian Essex - Morgan Stanley - Analyst

Good morning, and thank you for taking the question. I was wondering if I could dig in a little bit on Health & Public Service? And given the contract wins you have there, particularly some of the material ones in the state and Federal business, what impact do those wins have on your profitability? Particularly as we hear some of your competitors, as they bring on some of these larger contracts that are less profitable upfront, how do you manage those and how can we expect that segment to kind of grow and contribution to profitability going forward?

David Rowland - Accenture - CFO

Yes, we've been very pleased with the progression of our profitability in H&PS broadly and in Health specifically. When you're talking about some of the recent wins, of course we don't talk about contracts specifically, but as a general philosophy we're in the business of driving profitable growth. And we look at every client and contract opportunity against that objective.

We don't put business on the books that doesn't support our near-term and really mid- and long-term financial objectives. So we're quite pleased with the health of our Health & Public Service business. We're actually very excited about the opportunities that we see in Health, which is growing strong double digits as an industry, and are very encouraged about what the opportunities in the future hold for us.

Pierre Nanterme - Accenture - Chairman and CEO

Oh, yes, I'm very pleased with H&PS. It's certainly an area where we invested wisely in getting the returns. As mentioned by David, the Health segment has been growing double-digits for many years now, and many quarters in a row. And if I'm looking at our business in both Federal -- or in local and state, it's exactly moving in the right direction and growing. And all this H&PS business is accretive to Accenture, so we're pleased with that. And again, it's sort of a question of how you differentiate the type of services you're providing. In Healthcare, we decided to be extremely digital-rich by being among the first to deliver digital health records, connected healthcare and a very significant differentiation in healthcare.

If you look in terms of the public sector, we have been among the first to launch the local exchange insurance centers. And you know how much it's important now. In Federal, we recently invested in Agilex to bring more digital-rich services in the context of our Federal business. So again, for us, the name of the game is always the same, it's to avoid commoditization and low-value services in each and every industry and to relentlessly focus on where we could bring innovation and differentiation in each and every industry at Accenture.

Brian Essex - Morgan Stanley - Analyst

Okay, that's very helpful. And maybe if I could follow up on some of the previous M&A comments. Are you seeing a change in the competitive environment with smaller and maybe more specialized firms as a result of all of the recent M&A activity we've seen in the market recently? In particular, as you may be competing with them in certain contracts, are your win rates changing at all?

Pierre Nanterme - Accenture - Chairman and CEO

No, I don't think we see any significant change in the landscape from an acquisition standpoint. Everybody is trying to find the right nugget and the right company. So far, David mentioned, we acquired between 40 and 50 companies these last three years, we are in the range of 45, and we are pleased with the companies we integrated. And it's a very competitive market because everybody is looking to buy companies that are going to bring differentiation.

I think we are differentiating ourselves in this acquisition market with our brand. I tend to believe, without being arrogant at all, that our brand is serving us very well as a magnet for talent. We have a very strong brand, highly recognized. Companies we are contacting are recognizing that Accenture is a good company to work with, with a good culture, with a good client service DNA and always trying to do the right thing. And in the acquisition environment, having an excellent reputation, a strong brand and being recognized for performance, culture, and operating with seriousness is a competitive advantage.

Brian Essex - Morgan Stanley - Analyst

Very helpful, thank you.



Accenture's Q3 FY '15 Earnings Conference Call

David Rowland - Accenture - CFO

Thank you for the question.

Operator

Our next question comes from Lou Miscioscia with CLSA.

Lou Miscioscia - CLSA Limited - Analyst

Hey, good quarter, guys. Going to App Services, you guys mentioned that was an area of strength. So, one, just curious as to how much App Services do you see still hidden within companies that you could pull out, possibly driving a multi-year growth rate there? And then secondarily, we hear that you're starting to get more competitive and going after business again for the Indian outsourcers. Is that the case, and is that a bit of a change of strategy?

Pierre Nanterme - Accenture - Chairman and CEO

Yes, I'm very pleased you're asking a question with what we're calling now at Accenture Application Services, because, indeed, it's a very important business for Accenture. It's a very significant part of the technology market and we have set a very specific strategy to compete in Application Services on both ends of this market. On one end of Application Services, you have application development and maintenance. And in Accenture, we are extremely competitive with our Global Delivery Network in this market, which is more a market where you need to rationalize the technology operations of clients. And then on the other end of this Application Services market, you have the capability building, solution building. And Accenture, as well, is very well-positioned to capture the opportunity to build a new solution in Application Services.

So our job with our clients is to look at this Application Services and to make sure that the money, if you will, they are saving in application maintenance and development through leveraging offshore, through productivity, through automation, which we provide a lot, will be reinvested in capability building and new technology solutions. And Accenture, operating on both sides and at both ends of the spectrum, is in a very good position to be the partner of our clients in making this reinvestment possible. And that's why I'm very pleased to see that, all in all, Application Services at Accenture have been growing very well again this quarter.

David Rowland - Accenture - CFO

Right, absolutely.

Lou Miscioscia - CLSA Limited - Analyst

Okay. And the quick follow-up is on the consulting side. Any change -- or maybe let me ask it this way: Who do you see the most from a consulting side, especially in the U.S.? Thank you.

Pierre Nanterme - Accenture - Chairman and CEO

Competition is remaining extremely, I would say traditional, I don't see much change. In consulting, we would compete typically against what everybody is calling the Big Four. I mean, the Deloitte, the Ernst & Young, the KPMG, probably Deloitte and Ernst & Young if you want me to set two, would be the companies we are typically competing against, and we love that.

Lou Miscioscia - CLSA Limited - Analyst

Have you seen Cognizant any more than in the past?



Accenture's Q3 FY '15 Earnings Conference Call

Pierre Nanterme - Accenture - Chairman and CEO

In consulting?

Lou Miscioscia - CLSA Limited - Analyst

Yes.

Pierre Nanterme - Accenture - Chairman and CEO

Not really.

Lou Miscioscia - CLSA Limited - Analyst

Okay, thank you.

Operator

And our next question comes from Lisa Ellis with Bernstein.

David Rowland - Accenture - CFO

Good morning, Lisa.

Lisa Ellis - Bernstein - Analyst

Hey, guys, good morning. Can you do a quick update on the four cost-related initiatives that you'd laid out at your Investor Day last fall? Particularly in light, I'm looking at the headcount growth numbers which have been running ahead of constant-currency revenue growth for four quarters or so, which I think implies some pyramid mix shifting? So just, could you give us a bit of an update on that front?

David Rowland - Accenture - CFO

Yes, so for the benefit of other listeners, there were four areas of focus for expanding our margins, both near-term and over a longer-term horizon. The first thing that I called out was our focus on managing each of the five dimensions -- Pierre mentioned those earlier; I mentioned them in my script -- in a fit-for-purpose way, recognizing that each of those dimensions has a different economic profile, from the price points in the marketplace, to the cost to serve points, to how much we invest, management and overhead, et cetera. And on that front, we have made very good progress this year as we continued to take our organization up the maturity curve or the adoption curve for our new growth strategy, and really reorienting how we manage and drive our business fundamentally around those five dimensions. And I see evidence of that, for example, in the way we approach pricing for our Strategy services and our Consulting services in a much more differentiated way than we would have been doing, certainly a year ago, 18 months ago, 24 months ago, as one example. So I think we're making good progress.

The other thing I called out was leveraging our talent-based model, which is also aligned with these five dimensions as a way to manage our workforce, our talent, and the associated market-relevant labor costs in a more fit-for-purpose, more granular way. And everything we're doing to evolve how we manage our talent, how we develop careers, and also how we do compensation management and planning, is progressing nicely against that objective and that certainly has been one of the contributing factors to our profitability so far.

I mentioned portfolio optimization as a third area. Again, we are making progress on that front in terms of raising the game of all of the P&L runners around Accenture so that they look at our business across the portfolio and are turning dials to optimize the total by looking more discretely at the individual pieces.



Accenture's Q3 FY '15 Earnings Conference Call

And then underpinning all of that was our ongoing efforts in operational efficiency, the cost of running the organization. That includes, for example, our business management functions, Finance, HR, Marketing, and we have made very good progress this year across all of those functions in the efficiency of those organizations.

So, Lisa, we're very pleased. A lot of work to do. It's ongoing, but we're very pleased with the progress we've made so far.

Lisa Ellis - Bernstein - Analyst

Terrific, thanks. And then on my follow-up, can you give a bit of an update on Accenture Operations? And I think -- I think of Accenture Operations as typically more outsourcing-related work. You've had some mix shift here into the shorter-duration consulting work, heavily digital-driven, I imagine. So can you just give some highlights on the Operations side?

Pierre Nanterme - Accenture - Chairman and CEO

Yes, sure, and it's nice to hear from you, Lisa, I hope you're doing well. On Operations, indeed we created something very special, and I'm pleased to have a couple of minutes to mention the good progress and the positioning we're taking on Operations. As you know, in Accenture we're not using any more, or much more, the terminology consulting and outsourcing, and that's something, especially in the IA Day, we will continue to comment on how we see the market in professional and business services evolving. And when we created Accenture Operations, we were creating a very unique capability in the marketplace. I don't believe that anyone else has been building a similar capability with two major capabilities in it.

One, which is around infrastructure services, where you will find as much consulting and outsourcing in it, so it's a combination of services from cloud-related services, leveraging the Accenture Cloud Platform; from high-value services in security; and from, indeed, infrastructure outsourcing. And the other significant capability is going to be around business process management, if you will, where again, we are providing business process more and more as-a-service, platform-based, in the cloud, as an illustration. And the thing about what we are doing which is extremely leading-edge with procurement, where we are probably the first in the industry to provide procurement as-a-service, platform-based, with an economic model based on the consumption and on the per-transaction.

So Operations is indeed already a combination of consulting and outsourcing and this is what you're going to see more and more in Accenture, is the richness of the services we are providing will come from the integration of consulting and outsourcing services in a new economic model on leading-edge platforms.

David Rowland - Accenture - CFO

Thank you, Lisa.

Lisa Ellis - Bernstein - Analyst

Thank you, guys.

Operator

Our next question will come from James Schneider with Goldman Sachs.

James Schneider - Goldman Sachs - Analyst

Good morning. Thanks for taking my question. I just want to ask about Consulting versus Outsourcing for a moment. Consulting continues to get momentum and maybe even accelerating, but Outsourcing seems to be decelerating somewhat. So I was wondering what you put that down to? Is that mainly clients trimming on maintenance to fund strategic initiatives or is it something else? And do you see a way to where Outsourcing could actually start to inflate higher again?



Accenture's Q3 FY '15 Earnings Conference Call

David Rowland - Accenture - CFO

Yes, Jim, thanks for the question. Let me direct you back to -- because I think it's important to reinforce the dot-connecting between the Consulting and Outsourcing and the five dimensions of our business. And again, as we introduced the five dimensions of our business at IA Day, the reason we're moving in this direction is because this is reflective of where the market is moving.

And so again, when you look at our five dimensions of Strategy, Consulting, App Services and Operations, with Digital across all four, if you relate that back to Consulting as a type of work, which we've talked about historically, that includes Strategy, Consulting and a part of Application Services, to be clear. And if you look at Outsourcing, that includes a part of Application Services and most of Operations.

We really think that it's more helpful to talk about our business in the new dimensions. So again, if you look at Strategy and Consulting as more of the traditionally consulting-centric part of our business, that grew at mid single digits again, which is a very good growth rate relative to the market.

If you look at Application Services, it has components of Consulting and Outsourcing using our historical vernacular, Systems Integration and Application Outsourcing, [and Application Outsourcing] [corrected] grew mid single digits. And the thing that's unique about Accenture in that space, as Pierre explained very clearly, is our ability to play across the spectrum of services within Application Services—from the application maintenance side, which has one set of buyer values and economic profile, to the deployment of technology, which is part of the Application Services market space, which has a different set of buyer values and economic profile. And Application Services, again, grew roughly at the average of Accenture. So in that 10% plus-or-minus range.

And then when you look at Operations, it was strong double-digit. And so really when you think about our business and what's driving the growth, think about it in those terms, because I think you'll find that to be most helpful.

James Schneider - Goldman Sachs - Analyst

That's helpful, thanks. And then as a follow-up, just want to ask a question about some color on short-term versus longer-dated bookings. Can you maybe give us a sense of whether the short-term bookings continue to be a dominant source of the growth? And can you maybe talk about roughly, or if you can quantify it, what percentage of revenue was both booked and billed in the quarter versus what that was, say, a year ago?

David Rowland - Accenture - CFO

Yes, I can't really comment on the latter. What I will say is that we had signaled, I think maybe the latter half of last year and even earlier this year, that we were seeing a characteristic of our bookings where a higher percentage of our bookings was converting to revenue within a four-quarter period. And what I would say is that trend has remained pretty consistent. We continue to see a nice chunk of our bookings -- so the bookings in the quarter, a nice chunk of that -- that will convert to revenue in the next four quarters. And, of course, that has been part of the story for our strong growth rates over the last -- really not only the last three quarters, but really quarter three and quarter four of last year.

James Schneider - Goldman Sachs - Analyst

Great, that's helpful. Thank you.

David Rowland - Accenture - CFO

Thank you, Jim.

Operator

Our next question comes from Dan Perlin with RBC Capital Markets.



Accenture's Q3 FY '15 Earnings Conference Call

Dan Perlin - RBC Capital Markets - Analyst

Thanks. So digital, clearly, pretty impressive. It looks like it accounted for roughly 60% of your growth in the quarter. The question that I have, more specifically around your labor pool, is the cost of the digital labor pool is clearly a lot more expensive. And I know you're talking about these pillars and managing it, but I'm thinking more specifically, like what is it in terms of differential as we think about that? And then what specifically are you able to do to manage that talent-pool cost? Because if it's accounting for 60% of growth, I'm also wondering, is there a headcount correlation that's starting to decouple longer term with that pool, and that's going to help it? That's my first question.

Pierre Nanterme - Accenture - Chairman and CEO

Yes, on these labor costs, what we are doing in Accenture, and it's no different in Digital, is to make sure that we have the right mix of skills and the right locations for our skills. If you look in this Digital space, we have now roughly 28,000 people working in that environment. And it is very interesting, because you will see, as you might suspect, extraordinary, I would call them high calibers. I'm thinking about the business scientists we are hiring. I'm thinking about the PhDs we are hiring to drive algorithms in Accenture Analytics, and I'm thinking as well about some leading-edge designers we are hiring for Fjord, our design group at Accenture.

And on the other side of the spectrum, you will see that we are now one of the largest enterprise apps developers in the world. All of this apps development is done in our centers from India, as an illustration, and they are marvelous apps developers from India, and we are leveraging part of the Global Delivery Network for Digital to deliver apps services. I am thinking about Analytics. We have, as well, very strong people in our delivery centers who are, every day, doing analytic work from the GDN and from a lower-cost location. So it's no different in Digital from the rest of Accenture, where we are always looking to put the right people at the right place with the right cost, so we make sure that we have the right skills, that we are cost-competitive. It's exactly the same with Digital.

Dan Perlin - RBC Capital Markets - Analyst

Okay. And then shifting gears for a second, I wanted to ask an M&A question, but not pertaining to the businesses you want to acquire. It's more a function of all of the businesses globally that have been doing M&A. And I'm just wondering to what extent are you seeing that driving business maybe, let's say, into your consulting business, as I would think you'd be a top-of-list company to be thinking about in terms of helping the integration of those companies.

David Rowland - Accenture - CFO

Yes, you're talking about Accenture working with our clients, helping them with the integration of companies they're buying. Certainly, I think we do that in essentially all of our industries. That is a space that we operate in and it plays very well to, really, the full spectrum of our service offerings, from the strategic aspects of that to the consulting side of that, where we're integrating the business, the business processes, the organization, et cetera, rationalizing the systems from the acquired company. And then also driving the cost efficiency agenda, introducing and extending our Operations capability as part of those transactions. And so it's certainly a -- it's a typical type of work that we see where our large clients engage us to do that.

Dan Perlin - RBC Capital Markets - Analyst

But is the pace of play on that increasing or similar to what we've seen in the past? Thanks, sorry.

Pierre Nanterme - Accenture - Chairman and CEO

Yes. I think consolidation has been everywhere, you have some waves in some industries. I'm thinking about, we had a very significant wave in banking post-2008, 2009, 2010, and we've been one of the leading organizations in doing post-merger integration. A lot in communications, just reading the papers, you can see what's going on in communications. And we might expect more to come in the energy industry for good and valid reasons.

Dan Perlin - RBC Capital Markets - Analyst

Thank you very much.

Accenture's Q3 FY '15 Earnings Conference Call

David Rowland - *Accenture - CFO*

Thank you.

Operator

Our next question comes from James Friedman with Susquehanna.

David Rowland - *Accenture - CFO*

Good morning, Jamie.

James Friedman - *Susquehanna Financial Group / SIG - Analyst*

Good morning, guys. I was hoping to drill in a bit, if I could, on the 11 \$100 million, 33 \$100 million-plus deals that you've signed in the quarter and year-to-date. If you were to look at those with the lens of the operating groups, is there anything to call out there? Are they more populated in one or the other or do they roughly parallel the growth of the OGs themselves?

Pierre Nanterme - *Accenture - Chairman and CEO*

I guess when we are -- we're checking a bit, but if I'm looking back on these last few quarters, and I don't believe that this quarter is untypical compared to all of the quarters, the number of these transactions across -- above \$100 million, which is the threshold we are communicating every quarter, is quite well spread across all operating groups and potentially as well, from a geographic standpoint. And I'm pleased, it's giving me the opportunity to reinforce that message, about being very pleased that our growth is very well-balanced across the different dimensions of our business, industries and geographies.

David Rowland - *Accenture - CFO*

I would -- if you look at the quarter, for example, and you look at the 12, as I'm glancing at the list, all five operating groups were represented on the list. And so I guess it really reflects this broad-based kind of theme that we've been talking about, that all of the operating groups have as a part of their portfolio these larger transformational-type relationships. And the pattern is really as you'd expect. Okay?

James Friedman - *Susquehanna Financial Group / SIG - Analyst*

Okay, thank you. And then if I could ask one follow-up.

David Rowland - *Accenture - CFO*

Sure.

James Friedman - *Susquehanna Financial Group / SIG - Analyst*

So it's great to see Brazil coming back. I wanted to ask about the growth markets in general. But specifically, to Brazil, is that -- that was a hard one to predict, but do you see that as sustainable? Is Brazil on track to continue in this acceleration?



Accenture's Q3 FY '15 Earnings Conference Call

Pierre Nanterme - Accenture - Chairman and CEO

I will comment on the past more than on the future, but I'm pleased you're asking the question because, I'm not doing this often during calls, but I would like to recognize one of our greatest leaders at Accenture, namely Gianfranco Casati. We appointed Gianfranco Casati, who has been one of our best leaders at Accenture, leading Products for many years, to lead the Growth Markets. Gianfranco Casati is now located in Singapore to lead the Growth Markets, and you have a natural correlation between putting a great leader and the results in the Growth Markets. So I'm not surprised at all with the return we have made on our Gianfranco investment, if you will, and we have growth in Japan, Australia, in Brazil.

Part of the growth in Brazil, of course, is the recovery, is probably a kind of catch-up. But now we are beyond the catch-up mode and I guess what we see in Brazil, likewise the other markets, is our strategy of rotating the Accenture business to be more digital-rich and cloud services-rich, what we tend now to call the new, if you will, is paying off.

So again, all the markets, they have a potential issue, if you find the right entry point. And today the right entry point around the world is this unique combination of digital-related services and cloud-enabled services. So if you're digital-rich and cloud-rich, then you have probably the right formula to drive more growth in each and every market.

James Friedman - Susquehanna Financial Group / SIG - Analyst

Thank you.

KC McClure - Accenture - Managing Director, Head of IR

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

Operator

Thank you. That will come from Jason Kupferberg with Jefferies.

David Rowland - Accenture - CFO

Good morning, Jason.

Jason Kupferberg - Jefferies LLC - Analyst

Good morning. I'll make it quick here and try and wrap two into one because they're short. First one is just margins and rough GDN mix of digital versus the corporate average? And then what categories of competitors do you think you're taking share from in general around the globe?

David Rowland - Accenture - CFO

The GDN mix for digital versus the rest would be very similar. It's not -- I mean, overall on average, because you have to remember digital is reflected in Application Services, it's reflected in Operations, Consulting and Strategy. So it would be roughly reflective of the average.

Pierre Nanterme - Accenture - Chairman and CEO

Yes, from a competition standpoint, of course, we respect all our competitors and we love all of them. If I'm looking at the dynamic, I would say the fierce competition is more, on balance, coming from the names I mentioned before among the Big Four, and the Indian pure players. So, by contrast, you will see against who we are competing less now.



Accenture's Q3 FY '15 Earnings Conference Call

Jason Kupferberg - Jefferies LLC - Analyst

Okay.

Pierre Nanterme - Accenture - Chairman and CEO

All right. I think it's time for closing, KC, right?

KC McClure - Accenture - Managing Director, Head of IR

Yes.

Pierre Nanterme - Accenture - Chairman and CEO

Okay, thank you. So, thanks again for joining us on today's call. Given our performance year to date and the strong momentum in our business, I feel confident in our ability to deliver our revised business outlook. The investments we have made in strategic acquisitions, in assets and solutions, and in the skills of our people have produced strong results so far. And we will continue executing our strategy to seize the opportunity in the marketplace and deliver value for our clients, for our people, and for our shareholders.

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.

Operator

Thank you. Ladies and gentlemen, this conference will be available for a replay after 10:30 this morning, and running through Thursday, September 24 at midnight.

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That does conclude the conference for today. Thanks for your participation and for using AT&T executive teleconference service. You may now disconnect.

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