Accenture

2nd Quarter Fiscal 2020 Conference Call

Conference Call Transcript

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CORPORATE PARTICIPANTS

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Julie Sweet – *Chief Executive Officer*

KC McClure – *Chief Financial Officer*

PRESENTATION

Angie Park
Thank you, operator, and thanks everyone for joining us today on our second-quarter fiscal 2020 earnings announcement. As the operator just mentioned, I'm Angie Park, Managing Director, Head of Investor Relations.

On today's call you will hear from Julie Sweet, our Chief Executive Officer, and KC McClure, 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. Julie will begin with an overview of our results… KC will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for the second quarter. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the third quarter and full fiscal year 2020. We will then take your questions, before Julie provides a wrap-up at the end of the call.

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 Julie.

Julie Sweet
Thank you, Angie, and thank you everyone for joining us.

Today we are very pleased to announce our outstanding financial results for the second quarter and first half of fiscal '20.

I want to start by thanking our leadership team and all of our people for their dedication to our clients and to delivering on our commitments.

And, it is because of our leaders and people that I have absolute confidence in our ability to adapt and successfully navigate the unprecedented global health crisis the world is now facing.

I am incredibly proud of how our leadership team and people have rallied in the face of this crisis and worked 24/7 to ensure the safety and well-being of each other and to continue to serve our clients at this time of great need.

KC and I know that you are keenly interested in understanding how the coronavirus is impacting Accenture and our people.

- First, we're going to cover our starting point — KC will take you through Q2 results and I'll give you color on the strength of our business and our growth strategy as we exited H1.

- Then I will specifically address the current environment in light of the coronavirus and how we are managing the impacts.

- Finally, KC will give you our updated business outlook.

KC, over to you to go through our strong Q2 results.

KC McClure
Thank you, Julie, and thanks to all of you for taking the time to join us on today's call.
Let me start by saying that we were very pleased with our overall financial results in the second quarter, which were aligned with our expectations and completed a very strong first half of the year.

Both our Q2 and H1 results demonstrate the power of our highly differentiated growth strategy. A key intent of our growth strategy is to create durability in our revenue growth at a level that is consistently above the market, taking share and strengthening our position as a leader.

Against this objective, we have created a unique footprint that includes scale and leadership in the world's largest and most critical geographic markets and industries. This footprint, along with our highly relevant offerings… from Strategy & Consulting to Operations … is key to being a market leader in helping our clients, the world's leading companies, rotate to the New.

Now, let me begin by summarizing a few of the highlights for the quarter.

- Revenue growth of 8% in local currency was at the top end of our guided range for the quarter and reflected growth in 12 of our 13 industry groups, with five growing double-digit. Revenue continued to be driven by strong double-digit growth in digital, cloud and security related services and broad-based growth across our business dimensions. We continued to extend our leadership position with growth estimated to be more than two times the market.

- Operating margin was 13.4%, an increase of 10 basis points for the quarter and 20 basis points year-to-date, reflecting strong underlying profitability as we continue to invest in our business and in our people to position us for long-term market leadership. We delivered very strong EPS of $1.91, which represents 10% growth compared to last year and includes a 1% FX headwind.

- And finally, we generated significant free cash flow of $1.4 billion in the quarter and $2.1 billion year-to-date. We continue to execute on our strategic capital allocation objectives with roughly $2.7 billion returned to shareholders via dividends and share repurchases year-to-date. And, we have made investments of $584 million in acquisitions primarily attributed to 17 transactions in the first half of the year. And, we continue to expect to invest up to $1.6 billion in acquisitions this fiscal year.

With that, let me turn to some of the details starting with new bookings.

New bookings were a record at $14.2 billion for the quarter and surpassed our previous all-time high by $1.3 billion. We had a very strong overall book-to-bill of 1.3 in the quarter and 1.1 year-to-date.

- Consulting bookings were $7.2 billion, a record high, with a book-to-bill of 1.2.

- Outsourcing bookings were also a record at $7.0 billion, with a book-to-bill of 1.4.

We were very pleased with our new bookings, which represent 22% growth in local currency and reflect our unique position in the market and the continued strong demand for our services. Bookings continued to be dominated by high demand for digital, cloud and security related services, which we estimate represented more than 65% of our new bookings in the quarter.

Turning now to revenues…

Revenues for the quarter were $11.1 billion, a 7% increase in USD and 8% in local currency.

- Consulting revenues for the quarter were $6.2 billion, up 7% in USD and 8% in local currency.

- Outsourcing revenues were $5.0 billion, up 6% in USD and 8% in local currency.

Looking at the trends in estimated revenue growth across our dimensions — Strategy & Consulting Services posted strong, high single-digit growth, Technology Services grew mid single-digits, and Operations continued its trend of double-digit growth.

Taking a closer look at our operating groups…

- H&PS led all operating groups with 15% growth in local currency, driven by double-digit growth in both Health and Public Service. Double-digit growth in North America was driven by our U.S. Federal business, and we also had double-digit growth in Growth Markets.

- Products grew 10% reflecting continued strength in our largest operating group, with double-digit growth in Life Sciences, Consumer Goods & Services, as well as Retail. We were very pleased with the double-digit growth in both North America and Growth Markets.

- Communications, Media & Technology delivered 5% growth reflecting continued double-digit growth in Software & Platforms. We had strong growth overall in the Growth Markets and solid growth in both North America and Europe.

- Resources grew 5% in the quarter driven by double-digit growth in Energy, with double-digit growth in Chemicals in Europe and in the Growth Markets. Overall, we saw double-digit growth in the Growth Markets and strong growth in Europe.

- Finally, Financial Services grew 3% this quarter with solid growth in Insurance. We continued to see modest growth in Banking & Capital Markets globally, with strong growth in North America and in the Growth Markets, and continued declines in Banking & Capital Markets in Europe. Overall in Financial Services, we continued to see double-digit growth in the Growth Markets and strong growth in North America, partially offset by contraction in Europe.

Turning to the geographic dimensions of our business…

- In North America, we delivered 11% revenue growth in local currency, driven by double-digit growth in the United States.

- In Europe, revenues grew 2% in local currency, with double-digit growth in Germany, Italy and Ireland offset by a decline in the UK.

- And we delivered another very strong quarter in Growth Markets, with 11% growth in local currency, led by Japan, which again had very strong double-digit growth, as well as double-digit growth in Brazil.

Moving down the income statement…

Gross margin for the quarter was 30.2%, compared with 29.2% for the same period last year.

Sales and marketing expense for the quarter was 10.4%, compared with 9.8% for the second quarter last year.

General and administrative expense was 6.4% compared to 6.2% for the same quarter last year.

Operating income was $1.5 billion in the second quarter, reflecting a 13.4% operating margin, up 10 basis points compared with Q2 last year.

Our effective tax rate for the quarter was 17.1%, consistent with the effective tax rate for the second-quarter last year.

Diluted earnings per share were $1.91, an increase of 10% from EPS of $1.73 in the second quarter last year.

Days Services Outstanding were 39 days, compared to 43 days last quarter and 40 days in the second quarter of last year.

Free cash flow for the quarter was $1.4 billion, resulting from cash generated by operating activities of $1.5 billion, net of property and equipment additions of $165 million.

Our cash balance at February 29th was $5.4 billion, compared with $6.1 billion at August 31st.

With regards to our ongoing objective to return cash to shareholders…

In the second quarter, we repurchased or redeemed 4.7 million shares for $970 million, at an average price of $206.73 per share. As of February 29th, we had approximately $2.5 billion of share repurchase authority remaining.

Also, in February, we paid our second quarterly cash dividend of $0.80 per share, for a total of $511 million. This represented a 10% increase over the equivalent quarterly rate last year. And, our Board of Directors declared our third quarterly cash dividend of $0.80 per share to be paid on May 15th, also a 10% increase over the equivalent quarterly rate last year.

So, at the halfway point of fiscal '20, we have delivered very strong results. Even in the current environment, we remain extremely focused on achieving our longstanding financial objectives … growing faster than the market and taking share, generating modest margin expansion, while at the same time investing at scale for long-term market leadership, generating strong free cash flow, and returning cash to shareholders.

Now let me turn it back to Julie.

Julie Sweet
Thank you, KC.

So as we reflect on where we are… for the first half, we delivered record bookings of $24.5 billion, revenue growth of 8% in local currency, 20 basis points of operating margin expansion, an 8% increase in earnings per share and $2.7 billion in cash returned to our shareholders — which means we exited H1 in a clear position of strength, delivering outstanding results, taking market share, and continuing to successfully execute our growth strategy.

In H1 we continued to see how our unique business model, which spans services from Strategy & Consulting to Operations, resonates with our clients, who seek speed to value. And our unparalleled digital and technology capabilities, ecosystem partnerships, deep industry and functional expertise, and incredibly talented people are making the difference.

Let me give you color on the demand we saw from our clients in Q2 and H1 overall.

This quarter, we had 18 clients with new bookings over $100 million, and Operations hit a milestone of 25 consecutive quarters of double-digit growth.

Let me double-click on Operations. First of all, congratulations to the entire Operations team on this remarkable achievement. In Operations, where we continue to lead the market at nearly twice the size of our largest competitor, we have unparalleled capabilities to create value for our clients by delivering tangible business outcomes at speed by leveraging our SynOps operating engine. This engine uses a truly unique approach, combining data, Applied Intelligence and emerging technologies with human expertise to reinvent business processes and enable intelligent operations. It allows our clients to reduce costs and achieve technology-enabled enterprise transformation faster by using our engine rather than investing to build their own. Our Operations capabilities span the enterprise from Finance, HR, Marketing, Procurement, Supply Chain and Digital Manufacturing to industry-specific offerings such as Banking & Insurance Operations, Health Claims Operations, and Trust & Safety, which is doing the vital work of helping to keep the internet safe.

And the power of our Operations services also comes from our unique business model which allows us to bring multidisciplinary teams to create new value for our clients. For example…

- Accenture was recently named agency of record for Kimberly Clark's Baby and Childcare segment — a huge win for Accenture Interactive and their Droga5 creative team. Combining creative talent with our unparalleled Operations capabilities was key to our success, enabling us to deliver customized, local market-driven experiences powered by data and technology. And we are so proud that Droga5 was just recently named by Fast Company as one of the World's Most Innovative Companies.

Our industry expertise across our 13 diverse industry groups also continues to be a core competitive advantage, allowing us to bring deep industry and cross-industry knowledge coupled with our technology, including our ecosystem relationships, and Applied Intelligence capabilities, to help our clients tap into new opportunities for growth.

- For example, for KDDI, the Japanese telecom operator, we are leveraging our data and analytics capabilities, the AWS platform and knowledge of the industry to grow their core business by improving customer retention and expanding services for existing customers. At the same time, with our broad industry expertise, we are uniquely positioned to partner with KDDI to help transform their business by expanding beyond telecom into the banking, insurance, electricity and automotive sectors.

Finally, as always, let me highlight how our continuous innovation approach is driving our business. Last year, we launched Living Systems, a new approach to IT and business transformation. Living Systems is an Innovation Multiplier that creates value for our clients through a series of transformations, including organizational, technological and talent, in an agile way while efficiently managing applications and infrastructure for our clients. It fundamentally shifts IT to be measured by business outcomes rather than traditional metrics. This offering continues to gain momentum in the marketplace across multiple industries. For example…

- We are partnering with Corteva, the major global agriscience company, to enhance its performance through our Living Systems approach. We leveraged Accenture's myWizard platform and analytics to enable Corteva's innovative product-driven IT organization while activating savings that funded essential projects during its first year as a public company.

Innovation is core to our growth strategy and is in the DNA of Accenture. We just released our Accenture Technology Vision for 2020, marking the 20th anniversary of this annual thought leadership piece on the most important technology trends for the next few years. This is where we first predicted in 2013 that every business would be a digital business … and today, digital is everywhere — it is the core of our business and our clients' business. This year's research explores how enterprises need to think differently, and reimagine their fundamental business and technology approaches in a responsible, human-centered way in order to deliver on the full promise and value of digital.

Finally, we are incredibly proud that Ethisphere recently recognized us as one of the World's Most Ethical Companies for the 13th consecutive year, and FORTUNE included Accenture on their list of Best Companies to Work For in the U.S. for the 12th consecutive year … ranking us No. 41, up significantly from No. 61 last year.

Let me now turn to the coronavirus.

We currently have two priorities: the safety and well-being of our people, and continuing to serve our clients at this time of critical need.

In addition to our exceptional leaders and people and strong financial hand, we are well-positioned to address the impacts of the growing global health crisis due to five key factors.

First, our Global Management Committee already operates our business as a virtual team. We do not have a headquarters, our top leaders are spread across the globe, and Accenture has operated this way as a management team for over three decades. And so, mobilizing to address this situation has been seamless.

Second, we have a standing crisis management committee, which is led by our chief operating officer, Jo Deblaere, one of our most experienced leaders. As designed, we were able to quickly activate our protocols and a team of our most senior leaders, who under the leadership of Jo and with support from across Accenture, has done what can only be called a truly remarkable job. We have had these protocols in place, which we have tested and retested for years through real and simulated crises, and they are focused on our people, business continuity, facilities management and financial impact, among other things.

While we have not planned for a global pandemic, the ability to trigger these protocols and then adapt for this unprecedented situation is allowing us to move rapidly. For example, we have restricted travel and asked people to work remotely from home where possible. As of today, globally, we have already enabled a very significant percentage of our people to work from home, including approximately 60% of our people in our centers in India and the Philippines.

And to give you a bit more color on how our crisis management team is operating… Some of our work cannot be done from home, given the nature of the work, and some employees do not have the ability to work from home. In these cases, we have reduced the density of the people in our offices and centers and instituted extra hygiene procedures and social distancing protocols. We are working closely with our clients, every step of the way, as they also adapt to a remote working environment, and to date have not experienced any material service interruptions.

Third, we are deeply experienced in working virtually, and already have deployed at scale, in the normal course in our business, collaboration technologies and infrastructure for remote working. For example, we are the largest user of Teams, by Microsoft, in the world. And in the last few weeks, as we rapidly ramped more people working remotely from home, Teams audio usage has almost doubled from our typical 16 million minutes per day to almost 30 million minutes per day. We are using our deep experience of working together virtually across Accenture and with our clients to help adapt how we work together from home.

Fourth, our strong corporate functions and investments we have made to digitize Accenture have always been key to our attracting and retaining talent and operating Accenture with rigor and discipline. Our top-notch professionals in Finance, HR, Legal, Operations, Geographic Services, Marketing & Communications and CIO, enabled by these significant investments in our own digitization are making the critical difference in how we are responding with agility to the crisis and we are deeply grateful for their dedication and hard work.

Finally, as our record bookings in Q2 demonstrate, our services are highly relevant to our clients. Our rotation to the New over the last several years — now at over 65% of our business — our deep client relationships with the world's leading companies, and our unique business model will enable us to help our clients succeed in this uncertain period and continue to position us strongly in the long term.

With that, I'll turn it over to KC to provide our updated business outlook. KC…

KC McClure
Thanks Julie.

Before I get into our business outlook, I would like to provide some context. The coronavirus crisis is rapidly evolving and has created a significant amount of uncertainty. Our third-quarter and full-year guidance reflects our assumptions, as of today, based on the best information we have regarding the potential effect of the coronavirus on our business. There are a number of factors that we may not be able to accurately predict, including the duration and magnitude of the impact, as well as those factors described in the quarterly filing we made earlier today.

I would also like to point out that our guidance assumes a higher degree of impact to our financial results in Q3, with some improvement in the business environment in the fourth quarter, either due to an improved situation, or our clients having adjusted to operating in a new environment.

With that said, let me now turn to our business outlook…

For the third quarter of fiscal '20, we expect revenues to be in the range of $10.75 - $11.15 billion. This assumes the impact of FX will be about -1.5% compared to the third quarter of fiscal '19 and reflects an estimated -2% to 2% growth in local currency.

For the full fiscal year '20…

Based on how the rates have been trending over the last few weeks, we now expect the impact of FX on our results in USD will be approximately -1.5% compared to fiscal '19.

For the full fiscal '20, we now expect our revenue to be in the range of 3% to 6% growth in local currency over fiscal '19.

For operating margin, we now expect fiscal year '20 to be 14.7% to 14.8%, a 10 to 20 basis-point expansion over fiscal '19 results.

We continue to expect our annual effective tax rate to be in the range of 23.5% to 25.5%. This compares to an effective tax rate of 22.5% in fiscal '19.

For earnings per share we now expect full-year diluted EPS for fiscal '20 to be in the range of $7.48 to $7.70, or 2% to 5% growth over fiscal '19 results.

For the full fiscal '20, we now expect operating cash flow to be in the range of $6.15 to $6.65 billion, property and equipment additions to be approximately $650 million, and free cash flow to be in the range of $5.5 to $6.0 billion. Our free cash flow guidance reflects a very strong free cash flow to net income ratio of 1.1 to 1.2.

Finally, we continue to expect to return at least $4.8 billion through dividends and share repurchases as we remain committed to returning a substantial portion of our cash to our shareholders.

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

QUESTIONS AND ANSWERS

Angie Park
Thanks, KC.

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.

Operator, would you provide instructions for those on the call?

Operator
Yes, thank you. Ladies and gentlemen, if you do wish to ask a question, please press 1, then 0 on your touch tone phone. You will hear a tone indicating you've been placed in queue. If you wish to remove yourself from queue, you can press 1, 0, again.

Our first question is going to come from the line of Tien-tsin Huang. Please go ahead.

Tien-tsin Huang
Great, thanks so much. Hope everyone's safe and healthy. I wanted to ask on the – let me ask on your commitment to protect earnings if a recession is longer than expected. I'm curious what levers or levers you have that might be different than the credit crisis in '08, '09, to protect margins if demand comes in weaker than expected? Thanks.

KC McClure
Thanks, Tien-tsin, and thanks for taking time to call in today. So, when we talk about margin expansion in earnings, you've heard me talk about it in the context of a few levers, so let me talk about that as it relates to how we're running our business now and how we think about that as we go forward in this environment.

So I'll start with pricing. You've always heard me talk about how earnings expansion really starts with pricing. So if we look at where we were pre-crisis, the first half of the year, our pricing in Q2 was relatively stable. So in this environment, we're fortunate to have our client executives who have longstanding relationships with our clients and they know how to help our clients navigate this uncertainty, but they also know how to ensure that we're making the right arrangements for both them and for us. So we still have that focus on pricing.

The second thing that we've talked about in terms of market expansion is how we are going to continually invest. And, Tien-tsin, that continues to be with what I consider, we consider a competitive advantage for us. So we'll be able to continue to expand margins while we invest in our business.

And you've heard me say today that we continue to expect to invest up to $1.6 billion in acquisitions this year. We've already committed $1.1 billion through to date. So we have the ability to invest another $500 million in acquisitions should those opportunities arise. So we're going to continue to invest and we're also going to continue to invest in our people.

We're going to make sure that we have the capabilities that our clients need, both today and in the future, and we are going to invest so that people can develop the skills that they will need for today and for tomorrow.

In terms of what is a specific margin lever, Tien-tsin, that we would have now, I'll just point to the help that we will get from not traveling. So even in a virtual organization like ours, you heard Julie talk about the steps of how often and how much we use Teams. We still, with 500,000 people, have significant travel costs and we do see that decreasing as a result of the current environment, and that is something that is unique during this time period that does help support our margin expansion.

Tien-Tsin Huang
Got it, that makes sense on the travel point. Maybe just a quick follow-up, really helpful comments around your business continuity. Just curious, does your guidance reflect any sort of maybe inability to deliver against the bookings and your signed contracts? I'm just curious if there's anything sort of plans there, anything specific that we should be aware of on the continuity side? It sounds like not, but just want to make sure.

KC McClure
So let me maybe take a second just to explain how we arrived at our guidance overall, and Julie will talk about a lot of the continuity question that you have, Tien-tsin.

So, I think, first of all, it's important to step back and take a look at our trajectory for our year prior to the coronavirus. As you heard Julie and I talk, we exited H1 with very strong momentum and we were on a path to be at the top end of our previous annual guidance range of 6% to 8%. And at a minimum, we would have been reconfirming all the other elements in our guidance. But, obviously, things are different and let's talk a little bit about how we arrived at our guidance. And it really reflects how we've managed our business today.

So we took a look at our business from an industry, a geography and the type of work, specifically the very services that we offer. And then we analyzed the potential impacts from these unprecedented circumstances, such as working remotely at this scale for us and for our clients. And the fact that there will be more impacts in various industries than in others. And then based on these impacts, we recently estimated what we saw, today, as being the impact in our business in the second half of the year.

So as a result of that, we lowered the top end of our previous guidance range from 8% to 6%, as you have seen. And given the uncertainty, Tien-tsin, we also as you saw broadened our three-point range, broadened to a three-point range for the full year and also, a four-point range for Q3.

There's an important thing that's on the other side of the travel discussion that we just talked about as it relates to margin. The other context is the impact of lower travel on our revenue and that's really important as you look at our lowered guidance range for the year. So the importance of that on revenue is to understand that we will have a significant decline in our travel reimbursement revenue. And for the full year, that could be a full percent. So really, it could be as much as 2% in the second half of the year. So that is really reflected in the guidance range where we said, we'll have a -2% to 2%. And also, it's important to understand that that is disproportionately weighted to our Consulting type of work, probably as you would expect.

And lastly before I hand it over to Julie, I do want to just mention, probably the most important thing, is we continue to be laser-focused on our clients during this time. As Julie mentioned in her script, we're clearly the fabric of our clients' business now more than ever, doing mission-critical work. We're an integral part of their operations and we're partnering with them on what they need.

We know that the fundamental drivers of our business will continue to create tremendous opportunities for us in the long term and we're very confident in our positioning in the market. So thanks for letting me take a little bit of time to maybe expand a bit on guidance. I thought that was important given the environment, and I'll hand it over to Julie to talk about continuity.

Julie Sweet
Sure. Really what I want to take you through, Tien-tsin, thanks for the question… because, clearly, the way we've updated guidance is we're expecting that our business is going to evolve differently for the next two quarters for a whole host of reasons, right. So I think maybe what might be most helpful is to kind of give you some color on what's really happening on the ground with our clients, and there's really three sets of activities right now.

So the first is, our clients are focused as the first priority on the safety of their people and adjusting to the need to have remote working, which for many of our clients is very new and we're helping many of our clients make that adjustment. So for example, we have a client who asked us literally to go, and we partnered with Microsoft to do this, to go from zero people using Teams, in five days, it'll be their entire [25,000] [corrected] workforce. So in five days, zero to [25,000]. And so, as we look at it, our clients are very much focused on how to adjust to remote working and that's easier or harder depending on the nature of the industry and the kind of work.

And at the same time, as responding to the crisis, you have our clients, for example, in the public sector who are having to respond not only for their own workforces, but to what they need to do for the public. So, for example, we're working with some of our public sector clients to deploy more virtual agents that are preconfigured with COVID-19 advice to continue to free up capacity to answer the more critical questions in their call center. So the first is, safety of their own people and adjusting to this new environment where they have to have remote working and make decisions about that.

The second activity is really focused on mission-critical services. That, of course, varies by company, but if you look at the work that we're doing with our clients, we're working very closely to them on mission-critical services, like we do the settlement of securities, of trades, for major banks. We do payroll services. We support many different healthcare services. We're doing trust and safety services, keeping the internet safe. So there's a big focus in this first phase on mission-critical services, working together with our clients, being able to do that in some cases remote, in some cases continuing to go into the centers.

And then the third thing that's going on with our clients in parallel, of course, is the assessment of the impact of both the global health crisis and the disruption in the economy and what's been happening with the travel restrictions, the restrictions of people needing to stay at home, in some cases, sheltering in place.

Now, as you might imagine, that assessment occurs along two vectors. It comes at the intersection of industry, technology and geography, as well as the individual circumstances of the client. And so, to give you some sense of the variety, I have a client in the Utility industry that is, of course, dealing with the macro environment, but in my discussions with the CEO just this week, the first question was, hey, how do you feel, Accenture, about your COVID-19 arrangements, because you do a lot of work for us? And then we went right back to our usual touchpoint on the ERP system that we're putting together, which they consider to be mission-critical for how they operate.

On the other side of the spectrum, you have a client in the Industrial & Automotive industry that has been hard hit. We're executing our strategy beautifully there because we're helping them with enterprise transformation, and they're making choices in this environment, given what they're facing. So in that case, for example, they said, look, our HR transformation is mission-critical. We may need to, and are likely to, postpone the Finance transformation and they're working with us and their other partners as they make the essential choices you would expect in this environment.

If you go to a Consumer Goods client that has less expectation of significant impact, our conversations with them are, help us understand how you're going to adjust and can we move even faster because we think there's a competitive advantage in putting in place the ERP system that we're helping them do.

And then, of course, you have something like Travel, where what is critical at this time is very, very significantly different than many of the other industries for the obvious reasons.

So as you think about our guidance, we're thinking about how the impact is varying, looking at industry, geography and understanding the work and anchored, of course, in that much of the work that we do for our clients is mission-critical or critical to their agendas.

Tien-tsin Huang
That's great, that's helpful. Thank you.

Operator
Our next question then is going to come from the line of Ashwin Shirvaikar from Citi. One moment, please go ahead.

Ashwin Shirvaikar
Thank you. Hi Julie, hi KC, hi Angie, good morning and I hope that you and the entire Accenture team are doing well in these tough times. It seems based on, and thanks for the very detailed answer to the previous question from Tien-tsin, it seems clients are beginning to respond, but still possibly now quite considerably internally focused. So I'm specifically interested in a couple areas. For example, for the creative elements of Interactive that perhaps might not work so well with social distancing now. So how would something like that be affected? And then secondly, the conversion of bookings into revenues, if it needs a knowledge transfer and to do that you

might need travel. How would that be impacted and are you looking at a different pace of conversion?

Julie Sweet
Sure. You know, it's interesting because Accenture Interactive has some of our most creative minds, so probably best-suited, in fact, in thinking very creatively about how to stay connected. Many of those, as you may know, as you think about how they work virtually, often do work in studios and so, they work virtually with their clients as well. At this point, we're really just focusing on how to adapt the virtual environment and keep people connected. And so, from an Accenture perspective, we feel very confident in our workforce being able to adjust and then, of course, working with our clients to help them do so.

With respect to knowledge transfer, that's a great question. And as you might imagine, because we are so familiar with how to do virtual, what we've done is rapidly look at – and it's one of the first things we do. How do you do knowledge transfer remotely? Some of it is already there and – to be honest – we've had a lot of that and it's often times, our clients have wanted to do it onsite, even though we've said it could be done much more efficiently.

And one of the things you should recognize is that this is really going to be helping accelerate also the digital transformation of our clients. Because our clients, for example, some of them who wouldn't have allowed us to work from home now, who are giving us permission, who don't themselves work remotely, who aren't using collaboration technologies, are now being forced to. And the upside for them is really the opportunity to accelerate the cultural change and the digital transformation.

So on knowledge transfer, to answer your specific question, we have put in place new ways of doing that, but it's based on thinking that actually, in this case, we've already done. If you think about SAP, one of the first things we did – SAP, Oracle, any of our systems – is that we've looked at all of our methodologies. Obviously, our methodologies today do involve being onsite and so, we are converting them and then pushing that out across our workforce and helping our clients understand it. We're rapidly doing testing of those methodologies.

And so, at some point, of course, there's limitations. You do need to be able to get together for some pieces of it. And, of course, remember, today, we have people working in offices, as do our clients for essential work. And so, on balance, we've rapidly moved to use all of our knowledge to be able to convert, to help our clients do that, to change our methodologies. And then as we continue forward, depending on the duration and the magnitude, our expectation today is we will get into a rhythm that continues to allow the essential things to happen over time.

Ashwin Shirvaikar
Thank you for that. And the second question is with regards to sort of the underlying assumptions for the new updated guidance. To what extent are you, and this might be it's too early, but what to what extent are you able to sort of make assumptions about some of the secondary impacts say, for example, looking at working remotely, financial services companies might be, they positively might be affected because of rates, or in Resources, there are a number of examples of profitability being affected or supply chains being affected. How are you thinking through that?

Julie Sweet
Our guidance, and KC can add anything she'd like. At this point, we're giving you the guidance we see over the next six months based on the best information we have today. And as you've said, it's early to speculate how some of this may play out on the individual industry and it's quite early.

Ashwin Shirvaikar
Thank you.

Julie Sweet
Thank you very much.

Operator
And our next question is going to come from the line of Lisa Ellis from MoffettNathanson. Please go ahead.

Lisa Ellis
Thank you and thanks for the transparency in what you're seeing on the ground. So, of course, it's imperfect and it's still very early, but the best reference points many investors have for understanding kind of how Accenture's business reacts to this sort of sudden shock is looking back at the financial crisis. However, of course, you now have Accenture Interactive, you know have Accenture Operations, big pieces of the business that are very different. Can you just kind of give your perspective, whether you like it or not, I guess, that comparison is probably being made. So how do you think about how this situation might be different or similar to what we saw 10 plus years ago? Thank you.

Julie Sweet
Sure. Well, at a macro level, of course, there's some real differences in that several years ago, that was about an economic crisis. And today, because of the global health crisis, you're dealing with circumstances that are quite different in terms of, globally, clients having to move to work from home and what that does in terms of just the adaptation that they're making, the cessation of commerce in retail, etc., in many communities. And so, what I would say is you kind of start with this isn't just an economic crisis, which one would never have thought that they would say that if they looked back at the financial crisis, but you're really dealing with two things. Because if you think even about how we expect the situation to evolve and then I'll come to how we're different as we enter into this, but what we're expecting is that right now, as clients are very focused and adapting to not just the economic disruption, but as I said in those three buckets of things, having to adjust how they're working. That's why our guidance assumes that there will be an improvement in the business environment in Q4, either because the situation is better or because simply, clients and ourselves are adjusting to working together.

But I would say, as you think about today, that it's very different circumstances than the financial crisis. But as we look at it, we can't imagine a better-positioned company to address it for all the reasons that we talk about. The main thing, though, is the nature of our services today. As you saw with our results in H1, go back to what have we been focusing on?

We've been focusing on building the digital core of our clients, which is moving to the cloud, having the right systems, all of which this current crisis actually points out to, are very critical. And in the first wave of that, you're just seeing it in the demand for us to help them improve their infrastructure, deploy collaboration technologies and so on.

The second thing we've been helping them with is optimize their operations, and the ability to use technology, not only to reduce costs, but to be more productive. And what you are seeing even now, we're already having some inbound things about can you help us achieve more savings through technology in the shorter term? So we have very relevant offerings and what's really interesting, if you go back to the financial crisis in Operations, that business is very different. It was much more around labor arbitrage, with some analytics on top of it.

Today, as I talked about earlier, our business in Operations, our business in Living Systems, starts fundamentally with technology platforms that we have built, so that as our clients are making decisions, do they invest themselves to build something or should they leverage here? You know, the current crisis actually makes those investments we've been making for years, even more attractive and relevant because clients will have less investment capacity, they'll need to move fast and they've got to address the challenges.

And so, the final area is around accelerating the growth agenda and this is where Accenture Interactive is critical. I mean just think about what's happening right now. People are staying home and they're getting online and they can't go to stores. The opportunities over time to engage differently with your customers, to establish different relationships are going to be very important and Accenture Interactive is at the core of customer experience and very relevant.

So, we knew coming out of H1, you see the strength of that, but as you think about what's actually happening and, of course, it's still early days, but we can see what's going on. Our services, we believe will be even more relevant as we get through this first period where we need to, and I just want to be clear. At the end of the day, we have to serve our clients and we need to help them adjust. We need to make sure their mission-critical services are continuing and then help them evaluate how to navigate, grow and address it and that will be very different in different industries and companies. And this is where our relationships matter so much. You know, 95 of our top 100 clients, we have been there for over 10 years.

And so, I feel very confident and I think we are in a very significant position of strength as we go into this chapter.

KC McClure
And maybe one thing I'll just add is, one thing that I would say, is that we saw coming out of the last crisis, that we also believe, where we're well-positioned this time again, is taking market share. So when we came out of the last financial crisis, we did take market share and that is our expectation as we look long term, that we'll have tremendous opportunity over the long term by staying close to our clients.

Lisa Ellis
Thank you. Then maybe my follow-up is on the talent side. I mean your 500,000 people are the most critical asset of Accenture. Can you just remind us and maybe, it looks like headcount slowed a little bit in this last quarter, but it's still running close to 7%? So just as you think about this kind of sudden shock, can you just remind us how you manage rebalancing the types of skills and level of headcount you need in a very rapidly changing environment? What levers you're pulling just around slowing hiring, etc.? Thank you.

Julie Sweet
Thanks, Lisa, great question. So, first of all, just philosophically. We are not ever going to be short-sighted here. And as you said, our people are really our competitive advantage and we are the envy of the industry. And so, as we look at this, we do a couple of things. First of all, we're obviously slowing recruiting, but we're still recruiting like, for example, in Italy – and we all know the situation there – we're still recruiting for Security right now because as our clients have been moving to home, they need greater help in security services. And just a shout out to our HR team, we've rapidly turned our onboarding into entirely virtual, so that we can continue to recruit the critical services our clients need during this time when, obviously, we cannot have people coming to the office.

The second thing that we do is we look at where we need skills and our ability to pivot people because, of course, we're a great learning organization. And so, one of the first things we always do is, where is the demand and what can we do? And we've trained over 300,000 people in the last couple of years just on new IT. And so, part of what we will be doing, a significant part, is making sure that we also are able to adapt. For example, if you just look at the need for digital workplace. In this week alone, we took 600 people and spun them up and trained them on all the skills they need to be deploying these technologies like Teams, because our clients rapidly needed that for the demand.

And so, in our first phase, our focus is, of course, slowing down on our recruiting, except where we need the critical skills and then deploying our people at the demand and we won't be short-sighted.

Lisa Ellis
Wonderful, thank you.

Operator.
Thank you. Our next question then will come from the line of Bryan Keane from Deutsche Bank. Please go ahead. One moment please.

Angie Park
Why don't we go to the next person?

Bryan Keane
Can you guys hear me? Hey, guys, I'm not sure what the issue is there. I just want to ask about the guidance. Is the guidance about what the quarter looks like so far in March and then straight-lining that forward or is there an estimate on what kind of deterioration you'll see? And then thinking, you mentioned a little bit, I assume most of the guidance reduction is in Consulting and not Outsourcing? Thanks.

KC McClure
Let me start with the second part of your question first. So as we look to what we think the back half of the year will be by type of work, we do think that Consulting could be low single-digit positive or negative. And remember, that also factors in the more disproportionate impact of the lower travel reimbursement revenue, Bryan.

And the back half of the year, Outsourcing will be low to mid single digits positive. Both types of work right now, as you're seeing, are at high single-digit growth. So at the end of the year, we do see Consulting at low to mid single-digit growth for the full year and Outsourcing at mid to high single-digit.

And what I would just give in terms of other color on our guidance, just so it's an overall point is look, we've done the risk profile, as you know, it's higher than normal. We've provided our guidance in that context based on what we've seen today. As the leadership team, we're looking to be as relevant as we can to our clients. And as we've always said, it's our job to try to deliver as high as we can in the range. But I think it's also important to note that in this environment, we believe it's reasonably possible that we can land anywhere in this range.

So our guidance does take into consideration what we see today, but the environment remains fluid and can evolve differently from our assumptions.

Bryan Keane
Okay and then just a quick follow-up on staffing. Thinking about staffing issues, is Accenture seeing any impact to the guidance due to, you're not able to get on company sites? So just trying to think about the supply side issue of the guidance versus the demand issue.

Julie Sweet
Yeah, it's sort of client by client, and by the way, our legal department is doing an amazing job right now because, as you might imagine, many of our contracts didn't even contemplate ever working from home. So they've been working client by client, sort of 24/7 to evaluate that, but it's just a mix. And so, I'll just tell you, our guidance is kind of taking into account all of these different factors and that's where we updated it to.

Bryan Keane
Okay. Stay safe. Thanks so much.

Angie Park
Thank you. Operator, we have time for one more question, and then Julie will wrap up the call.

Operator
Thank you. Our next question then will come from the line of Bryan Bergin from Cowen. Please go ahead.

Julie Sweet
Hi, Bryan.

Bryan Bergin
Hi, good morning, thank you. I wanted to just clarify some comments you made on the remote operations. I heard 60% in India and Philippines. I'm curious, can you move that to a higher level or is that currently the max? And then, just as far as the global mix of the workforce, how you're thinking about the ability to deliver remotely on the total base of operations and what do you think that will go to ultimately?

Julie Sweet
Well, so, in the Philippines, we're probably about where we expect to be. In India, we're still adding. But, again, it really depends on the nature of the work. And so, we wouldn't expect it to be much higher than that, because some of the work, if you think about bandwidth, the need for power, what our employees can do, the conditions, and then like sort of the availability of the

bandwidth on some of the things that take more bandwidth. So it's going to go a little bit higher in India, but I think we're in a pretty good position.

Around the world it varies. I mean look, in Italy, we're at an 85% to 90%, in Spain 90%. So globally, it's actually much higher because of the nature of the workforces. So you really have to look at the nature of the work, and country by country. But as my stat of 16 million minutes a day to 30 million minutes a day, we've mobilized very quickly.

Bryan Bergin
Okay. And then just as far as demand and then the guidance, can you just discuss clients, what you're seeing in their spending priorities, understanding it's fluid, how are clients considering spend across those new areas versus traditional IT areas here amid the crisis? I'm really just trying to understand what's built into the guide across those two channels, or whether you want to break it down by how you formulated the guide by industry verticals or regions? Just trying to understand one layer of depth down on the guidance assumptions.

KC McClure
We did take a look, as I mentioned, Bryan, we did take a lot at different geographies, the lens of geography in our guidance. We also looked at the lens of industries, and we did take a look at which ones would be more severally impacted in our view. As Julie talked about, we did mention Travel, it's a small part of Accenture's business. It's about 3% of our revenue and had already been in decline even before coming into this crisis. So that's one industry, although it's not a big part. We have important clients there. It's not a big part of our revenues, but Travel is somewhat – is one industry.

We talked last quarter about Industrial & Automotive, being a little bit under pressure in North America and Europe. We do think, that's about 7% of Accenture's revenue, and we do think that will continue to be affected going forward. And I'd say within High Tech, where we have our Aerospace &Defense that, obviously, will continue to be impacted as well.

So maybe that gives you a little bit of color on some of our industries.

Bryan Bergin
Thank you.

Julie Sweet
Thank you again for joining us on today's call.

As we navigate the current environment, it is important to remember that we will continue to invest in our business and our people for the long term, the fundamentals of our business are strong … and we plan to emerge even stronger.

I cannot emphasize enough my gratitude for the extraordinary efforts of our leaders and our people around the world to both take care of each other and continue serving our clients, which they have done even as they are concerned for their own health, and the health of their loved ones and communities.

I also want to thank our clients for placing their trust in us, our investors for their continued confidence, and our ecosystem partners for their shared commitment to our clients.

Perhaps what is most unprecedented about the situation we face is how universal the tragedy is that is unfolding around the world — it truly affects us all.

I hope that you and your family and friends are healthy and continue to be well…

Thank you…