Accenture

3rd 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, Greg, and thanks everyone for joining us today on our third-quarter fiscal 2020 earnings announcement. As Greg 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 third quarter. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the fourth 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.

Since our last earnings call, the world has continued to face unprecedented challenges—health, economic and social—and throughout Q3 we saw rapidly deteriorating economic conditions globally.

I am proud of and want to thank our people and our leaders around the world for coming together in Q3 to continue to deliver on our commitments to our shareholders, our clients, our people and our communities in the face of this crisis.

Before turning to our delivery on these commitments, let me provide a bit more color on the context. Within days of our earnings call on March 19th, we continued to quickly mobilize our people to work from home and during the quarter we had approximately 95% of our people enabled to work remotely. For all of April and May, other than China, virtually every country in which we operate was in lockdown.

In addition, as you may remember, in January we announced that as of March 1st, we were implementing a new growth model and making leadership changes. We seamlessly implemented this new model, demonstrating our agility at massive scale, which is a testament to the talent of our over 500,000 people and the strength of our leadership team.

So, in terms of delivering on our commitments to our shareholders:

- we delivered Q3 revenues in line with the range we provided only 8 days after the global pandemic was declared, and we hit a new milestone of approximately 70% in the New, which is digital, cloud and security,
- we delivered $11 billion in new bookings, a 6% increase over Q3 last year, which demonstrates the relevance of our services and our ability to sell in a remote everything world,
- we continued to invest in our business for the long term, closing an additional $742 million in strategic acquisitions for a total of $1.3 billion year-to-date,
- we delivered operating margin expansion of 10 basis points, and
- we continued to strengthen our balance sheet, closing the quarter with $6.4 billion in cash.

In terms of delivering on our commitments to our clients:

Our clients rely on us for mission-critical work. Ninety-five of our top 100 clients have been with us for over 10 years because we are a trusted partner, and during this time we have deepened that trust yet again because of our ability to deliver seamlessly, including how we transitioned our people from the delivery centers in India and the Philippines to work from home without service interruption. For example, we closed the books on time for more than 70 public companies in Operations, and we continued our pre-crisis track record in Technology with around the clock go lives on new releases every 15 minutes, on average. In both Technology and Operations, we were able to execute entirely remote knowledge transfer with great success.

In terms of delivering on our commitments to our people:

We continue to invest in training and development, and the continuous reskilling of our people. We are on track to deliver the same training hours as last year, while pivoting completely to a digital learning experience built on our platform, Accenture Connected Learning.

We continued to promote people mid-year, although at a reduced level compared to last year, to ensure that our very best talent continues to build a vibrant career and is recognized and rewarded.

In terms of delivering on our commitments to our communities:

We believe strongly in our responsibility to contribute to the well-being of our communities. In addition to our teams who have supported our health and public service clients with extraordinary COVID-19 related work, we also wanted to make a unique pro bono contribution that leveraged our strengths.

In addition to our many local activities, we are very proud that we are helping put people back to work around the world with the People + Work Connect platform that we created together with Lincoln Financial Group, ServiceNow and Verizon. This platform is a global online employer-to-employer initiative to bring together, at no cost, companies that have laid off or furloughed people with organizations in urgent need of workers. Designed by CHROs, including our own extraordinary CHRO, Ellyn Shook, Accenture built the platform in only 14 days. The response has been overwhelming, as more than 1,300 organizations across approximately 80 countries have engaged, with currently about 400,000 positions already on the platform, which are balanced between open needs and availability.

With that, over to you, KC.

KC McClure
Thank you, Julie, and thanks to all of you for taking the time to join us on today's call.

We are pleased with our third-quarter results, which were aligned with our expectations, and reflect the diversity and durability of our growth model across geographies, industries, and services. Our results continue to reinforce the relevance of our offerings and capabilities in the market to deliver value for our clients. Importantly, these results illustrate Accenture's unique ability to manage our business and deliver significant value to our shareholders in a very uncertain environment.

Before I get into the details, let me summarize the major headlines of our third-quarter results, which reflect continued strong execution against our three financial imperatives:

- Revenue grew 1.3% in local currency, at the top end of our guided range. This includes a reduction of approximately 2% from a decline in revenues from reimbursable travel costs.

  Taking a look at revenues through an industry lens, the diversity of our portfolio continues to serve us well. Approximately 50% of our revenues came from seven industries that were less impacted from the pandemic and in aggregate grew high single digits, with double-digit growth in Software & Platforms, Life Sciences, and Public Service. At the same time, as we expected, we felt pressure from clients in the highly impacted industries which include Travel, Retail, Energy, High Tech including Aerospace and Defense, and Industrials. While performance varied, this group collectively represents over 20% of our revenues and declined high single digits.

  Given this is the first quarter of results since the onset of the pandemic, let me share a bit more color on how it shaped our quarter. We had strong momentum coming into the quarter, which continued through March. We began to see the impacts in our business in April and May as a result of clients postponing work, reducing existing volumes, and deferring decisions on new work. These impacts were more pronounced in Strategy & Consulting. We did not, however, see an uptick in cancellations over typical levels. In addition, we experienced very little revenue impact from needing to shift to remote working as we continued to successfully deliver services to our clients.

- Operating margin was 15.6%, an increase of 10 basis points both for the quarter and year to date, as we continue to demonstrate our ability to drive sustainable margin expansion. This result continues to reflect the absorption of significant investments in our people and our business as we further strengthen our leadership position in the market. We are also benefitting from significantly lower spend on non-billable travel, meetings and events.

- And finally, we delivered very strong free cash flow of $2.6 billion in the quarter while also continuing all elements of our capital allocation program, including returning roughly $1.1 billion to shareholders via dividends and share repurchases. We have made investments of $1.3 billion in acquisitions, primarily attributed to 29 transactions, year-to-date. 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 $11.0 billion for the quarter, reflecting growth of 6% in local currency and 4% in USD.

- Consulting bookings were at $6.2 billion, up 5% in local currency, and 3% in USD, with a book-to-bill of 1.0.

- Outsourcing bookings were $4.8 billion, up 8% in local currency, and 5% in USD, with a book-to-bill of 1.0.

We were very pleased with our new bookings, which continued to be dominated by high demand for digital, cloud and security-related services which we estimate represented approximately 70% of our new bookings in the quarter. Looking forward, we expect strong bookings in Q4.

The fact that we delivered $11 billion of bookings in this environment with growth over last year, with much of these sales closed virtually, while at the same time building a very strong pipeline, speaks to our agility and the strength of our client relationships.

Turning now to revenues…

Revenues for the quarter were $11.0 billion, a 1% decrease in USD and a 1.3% increase in local currency, reflecting a foreign-exchange headwind of roughly 2.5%, compared to the 1.5% estimated impact provided in our guidance last quarter. This result was at the top end of our FX-adjusted range.

- Consulting revenues for the quarter were $6.0 billion – down 4% in USD and down 2% in local currency, which includes a reduction of approximately 3 percentage points from a decline in revenues from reimbursable travel.

- Outsourcing revenues were $5.0 billion – up 3% in USD and up 5% in local currency.

Taking a closer look at our service dimensions…

Technology Services grew mid single digits, Operations grew low single digits, and Strategy & Consulting declined mid single digits.

Additionally, digital, cloud and security-related services grew high single digits.

Turning to our geographic markets…

- In North America, we delivered 2% revenue growth in local currency driven by double-digit growth in Public Service, Life Sciences, and Software & Platforms, and high single-digit growth in Banking & Capital Markets. Growth was offset by declines in Chemicals & Natural Resources and High Tech.

- In Europe, revenue declined 2% in local currency. We saw double-digit growth in four industries including Software & Platforms, Chemicals & Natural Resources, Health, and Life Sciences. Growth was offset by declines in Consumer Goods, Retail & Travel, High Tech and Banking & Capital Markets. Looking closer at the countries, Europe was driven by high single-digit growth in Italy and mid single-digit growth in Germany, offset by a continued decline in the UK as well as declines in Spain and France.

- In Growth Markets, we delivered 5% revenue growth in local currency driven by double-digit growth in six industries, with particular strength in Software & Platforms, Public Service, and Chemicals & Natural Resources. Growth was offset by a decline in Consumer Goods, Retail & Travel. From a country perspective, Growth Markets was led by Japan, which again had strong double-digit growth.

Moving down the income statement…

Gross margin for the quarter was 32.1%, compared with 31.8% for the same period last year.

Sales and marketing expense for the quarter was 10.2%, compared with 10.7% for the third quarter last year.

General and administrative expense was 6.3% compared to 5.6% for the same quarter of last year.

Operating income was $1.7 billion in the third quarter, reflecting a 15.6% operating margin, up 10 basis points compared with Q3 last year.

Our effective tax rate for the quarter was 25.5%, compared with an effective tax rate of 25.6% for the third quarter of last year.

Diluted earnings per share were $1.90, compared to EPS of $1.93 in the third quarter of last year.

Days Services Outstanding were 41 days, compared to 39 days last quarter and 39 days in the third quarter of last year.

Free cash flow for the quarter was $2.6 billion, resulting from cash generated by operating activities of $2.7 billion, net of property and equipment additions of $150 million.

Our cash balance at May 31st was $6.4 billion, compared with $6.1 billion at August 31st.

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

In the third quarter, we repurchased or redeemed 3.7 million shares for $627 million, at an average price of $170.54 per share. As of May 31st, we had approximately $1.9 billion of share repurchase authority remaining.

Also, in May, we paid our third quarterly cash dividend of $0.80 per share, for a total of $509 million. This represented a 10% increase over the equivalent quarterly rate last year. And, our Board of Directors declared our fourth quarterly cash dividend of $0.80 per share to be paid on August 14th, also, a 10% increase over the equivalent rate last year.

So, in summary, we delivered to the expectations we provided in March. Looking ahead, we remain laser-focused on capturing growth opportunities in the market and delivering value for our clients. As you know and expect of us, we will operate with rigor and discipline while continuing to invest in our business and our people for long-term market leadership. We entered the crisis in a position of strength and we are driving our business to emerge even stronger.

We remain committed to delivering significant value to our clients, our people and our shareholders as we continue to navigate this very uncertain environment.

Now let me turn it back to Julie.

Julie Sweet
Thank you, KC.

As we look forward, we are starting to see the overall business environment improve, with more engagement with many of our clients. However, the high level of uncertainty persists, and it is too early to predict when the pandemic and economic conditions will improve.

Working from home is highly efficient, and I am connecting personally with more clients around the world than ever before. I first want to share our perspective on the crisis and how demand is shaping up based on what I am hearing from CEOs and then bring it to life.

This crisis is unique in two ways: First, it has created the largest-ever change in human behavior — at scale and almost instantaneously, requiring companies to fill new demand trends, change how they engage with customers and adapt quickly to volatile market conditions, all of which require a strong digital foundation just as they also face massive cost pressures.

Second, the pandemic is happening during a period of exponential technology change, which is driving entirely new ways of doing business. In our Future Systems research last year, we identified that the top 10% of companies in terms of tech adoption, depth and culture, or the “leaders,” are performing twice as well as the bottom 25%. We believe COVID immediately widened that gap.

We see the leaders doubling down on their investments, while the laggards recognize the need to accelerate the pace of their transformation.

Companies are turning to Accenture as the trusted partner with deep industry experience and the ability to help them create investment capacity and change at scale, and to execute with multi-disciplinary teams spanning Strategy & Consulting to Operations. And trust matters more than ever, making our strong client relationships and reputation a critical advantage.

This is reflected in our Q3 bookings, which include 11 clients over $100 million — and importantly is reflected in our strong pipeline as we look ahead to Q4.

Let me highlight some of the transformational deals in our Q3 bookings to bring to life what our clients need, and how we are able to deliver.

Leveraging our Intelligent Platform Services, for a major global beverage company seeking to drive growth, we will be implementing SAP S/4 HANA to support business simplification and better engagement with customers and consumers through real-time data. We are also providing ongoing IT modernization and application maintenance leveraging our myWizard asset to lower costs and improve the user experience. IT modernization overall continues to be an area of high demand.

Leveraging our Industry X capabilities, another area where we are seeing increased demand, we will be helping Airbus reduce costs by up to 15% and speed time to market by modernizing their legacy product lifecycle management system. We are implementing and enabling a digital platform built with Dassault Systems, a leader in 3D design, to help the company reinvent how they design, build and support new aircraft products and components.

Leveraging Operations, we extended our strategic partnership with Microsoft to provide them with credit and collections services, collecting over $120 billion in cash annually, across 170 countries, in 30 languages. By combining the market-leading, AI-powered assets in our SynOps platform, like Intelligent Collections, with Microsoft Azure and Power Platform technologies, and by simplifying global processes and policies, we will drive significant day 1 savings and lower the marginal cost of growth. At the same time, we will deliver top-tier performance. This is an example of why we continue to be the market leader in business process services, powered by our ecosystem relationships. Operations is an area where we are seeing a significant increase in demand.

Each of these deals create tangible value in both cost efficiencies and business outcomes leveraging our mix of services and deep industry and functional expertise, which Accenture is uniquely able to bring to our clients.

I also want to touch on another area of demand where we are seeing even more significant growth post-COVID across industries. Cloud migration and cloud-based data and innovative business models have quickly accelerated — Amazon Web Services, Microsoft Azure and Google Cloud Platforms — as well as Alibaba Cloud in China and Oracle Cloud Infrastructure, or OCI. Companies are looking to more quickly reduce costs and capture the innovation of the cloud, as well as provide the foundation for better access to data for new business outcomes and models.

Examples from our Q3 sales include working with a global pharmaceutical company to consolidate multiple data sources on AWS to drive faster product development, working with a major global insurance company to migrate over 30% of their business applications to Azure in just 18 months, working with a leading Asian bank to build digital banking services on GCP, working with one of the largest dairy companies in China to migrate and modernize their customer & omni-channel commerce systems using Alibaba cloud, and working with a European telecommunications provider on a Living Systems IT modernization, which includes the migration of their Oracle estate to OCI. With cloud, our ability to bring industry and crossindustry insights to our clients, and world-class change management for speed and value, due to our strong Strategy & Consulting capability is a major competitive advantage.

Given the events of the last weeks, I do want to pause and take a moment to talk about a core part of who we are as a company. We have an unwavering commitment to inclusion and diversity and equality for all. We have zero tolerance for racism, bigotry and hate of any kind.

We live this commitment every day because it is the right thing to do and because becoming the most inclusive and diverse company in the world has been critical to our strategy. Since 2014, when we doubled down on inclusion and diversity and created our digital business, we have delivered 9% compound annual revenue growth in local currency. We are a talent magnet – in part because the most talented people want to work at a company that not only creates value but also leads with values.

We have made progress with respect to our people of color but not enough. We are determined to use this moment in the U.S. as another moment of change for us. This month, we announced our commitment to take our next set of actions, which include setting external goals in the U.S. for increasing overall representation and managing directors for our African American/Black and Hispanic American/Latinx communities — similar to how we have set public goals for gender globally. We also are adding new mandatory training that will help our people identify, speak up against and report racism. And we are committed to take similar actions globally.

Now, 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, as I did last quarter, I would like to remind you that given the coronavirus pandemic there are a number of factors that we may not be able to accurately predict, including the duration and magnitude of the impact, the pace of recovery, as well as those described in the quarterly filing we made earlier today.

Now with that said, let me turn to our business outlook…

For the fourth quarter of fiscal '20, we expect revenues to be in the range of $10.6 to $11.0 billion. This assumes the impact of FX will be approximately negative 1% compared to the fourth quarter of fiscal '19 and reflects an estimated negative 3% to positive 1% growth in local currency, and includes approximately negative 2% from the decline in revenues from reimbursable travel.

For the full fiscal year '20…

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

For the full fiscal '20, we now expect revenue to be in the range of 3.5% to 4.5% growth in local currency over fiscal '19.

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

We now expect our annual effective tax rate to be in the range of 23.5% to 24.5%. 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 $7.57 to $7.70, or 3% to 5% growth over fiscal ’19 results.

For the full fiscal ’20, we now expect operating cash flow to be in the range of $6.45 to $6.95 billion, property and equipment additions to be approximately $650 million, and free cash flow to be in the range of $5.8 to $6.3 billion. Our free cash flow guidance reflects a very strong free cash flow to net income ratio of 1.2 to 1.3.

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

Over to 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.

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

Operator
Thank you, ladies and gentlemen, if you’d like to ask a question, please press 1 then 0 on your telephone keypad. You may withdraw your questions at any time by repeating the 1, 0 command. If you’re using a speakerphone, please pick up the handset before pressing the numbers. Once again, if you have a question, please press 1 then 0 at this time. And one moment, please for your first question.

Your first question comes from the line of Tien-tsin Huang from JPMorgan. Please go ahead.

Tien-tsin Huang
Thanks so much, for the great execution here. Just on the, I want to hone in on the strong bookings comment for the fourth quarter. Can you maybe give us a little bit more on the type of work you’re doing, Consulting versus Outsourcing, but also, what’s COVID-specific work versus transformational? And maybe also, Julie, I think last quarter you mentioned or talked about clients adapting to a new normal. Has that happened or is Accenture really driving or just adapting to demand in this uncertain market, as you called it?

KC McClure
So maybe I'll start and then Julie can weigh in on demand. So, Tien-tsin, thanks for your question. In terms of strong bookings, maybe I'll just talk a little bit about what, maybe if I can take this opportunity to talk about guidance overall and I'll hit on the bookings point as well.

So in terms of what we are looking at for the fourth quarter, in terms of both our revenue and our bookings, I want to put some context into our guidance. Obviously, it continues to be an uncertain environment and in revenue, we always aim for the top portion of our guided range. But as we said last quarter, this quarter the entire range is in play.

And if I put the context of Q4 into what we experienced in Q3, we had strong momentum coming into the third quarter and that carried through in March and we began to see the impact of the pandemic on our business in April/May. And so, as we think about Q4 as it relates to what we saw in Q3, at the top end of our revenue guided range, it implies an improved performance over what we saw in April and May. At the bottom end of our revenue guidance for the fourth quarter, it will have stabilized.

And so, as it relates specifically to your question on bookings, we were able to grow a very strong pipeline during this same time and we do see that we have the potential for strong bookings in the fourth quarter.

I'll let Julie give you a little bit of a view on that, on the color, as it relates to what we're seeing in demand in the market.

Julie Sweet
Sure. As between kind of Consulting and Outsourcing, we saw sort of similar patterns in Q3 and this. We had some lower sales in Strategy & Consulting in Q3 and we're going to have some lower sales in Q4. We sort of expect that as we continue, but if you step with that, let's just look at demand. Because the whole set of demand that started in Q3, that'll continue into Q4 in some areas around a few things. So Health & Public Service, so we saw a surge and the need in Health & Public Service. For example, we pioneered for the Commonwealth of Massachusetts in the U.S., working with partners in Health and Salesforce for contact tracing applications, an operation which we've now taken to eight states, for example, the State of California where we're working with Salesforce and AWS. That work will continue.

You saw us working around the world doing things like using our industry and technology expertise to set up virtual agents, like in India, with myGov and Microsoft we set up a virtual agent. You go to Brazil, we worked with Microsoft to set up on telemedicine for a major hospital there. And that work and the trends around telemedicine and the need to support citizens through the pandemic will continue, we believe.

And what's important there is it's not simply – this isn't about technology. This is about taking all of our insights from the needs for Health & Public Service and supporting citizenry with technology, with ecosystem partners and – quite honestly – innovating remotely, the work that we've been doing, and that'll continue.

You also see the supply chain really being an area of big focus. So we've worked with Danone, a multinational food products company whose supply chain was immediately disrupted severely, and leveraging analytics, it became essential for them to give them a near real-time data around their supply chain to avoid disruption. So that kind of work, supply chain, we've been doing it, it's going to continue.

And, of course, clients are now moving from the immediate needs and leveraging the assets and tools and understanding that we have to thinking longer term because, of course, what you have is completely different trends and uncertainty. So how do you really connect everything from understanding the customer, all the way back to manufacturing, and that's why you start to see the demand in digital manufacturing, supply chain and we expect on the customer side that to continue.

Then finally, the whole area of online. So we worked with a global retailer, who's been investing for years in omni-channel. We've been piloting curbside pickup before the crisis in 100 stores and in 48 hours, we took them to 1,400 stores. And so, we're beginning to really talk about, with these other retailers who are behind, we talked about the laggards and the leaders, how are they going to be adjusting it.

Now, if you take a step back, Tien-tsin, on the big picture, we do three big things. We build digital core and I talked about it in my script how cloud is accelerating. Security is accelerating. We just bought Symantec's managed service business. We're now one of the largest and leading providers in the world. The threat landscape has expanded and we're seeing tons of demand in security. Lots of demand in data and Applied Intelligence as data is so necessary. But on the other hand, Intelligent Platform Services, because as we've shared in the past is about 40% of our business and pre-crisis was growing double-digit, that moderated in Q3 and we'll see further moderation in Q4, we expect, as clients have to take a step back, refocus, prioritize. We're helping them shape that, but the demand long term is absolutely there and you saw that in our bookings that we talked about, on the S4/HANA implementation in Q3, that we're doing to drive growth, as well as efficiencies.

And so, while we continue to see that moderating, we really do see that as being very much affected by the industries that are most severely impacted, but also as clients, frankly, are taking a step back to figure out how they're going to accelerate and in what sequence they're building their digital core.

In the area of optimizing operations, which is the second big thing we do, our Operations business is seeing a surge in demand. We talked about this last quarter where we'd had double-digit growth for 25 consecutive quarters. Obviously, some crisis-related impacts in this quarter, but as the need for digital transformation has accelerated, the ability to use our digital platform, SynOps, to drive cost efficiencies and get better data faster is really taking that business to another new surge in demand as we look at our pipeline. And then also, the digital manufacturing as I referred to.

And then finally, on the growth agenda side, Accenture Interactive, an incredible business. We hit $10 billion and were having significant growth. It was significantly impacted in Q3 as companies focused more on shoring up what they had, as opposed to thinking about the next generation of customer experience, etc. We're now seeing those conversations begin again. And what's really interesting there is that the B2B companies, like the industrials, who have a traditional field sales model, were able to get connected with remote work, but they weren't online. And so, we think there's going to be a real surge over time and we're starting to have those conversations about how you move online.

In general, to your question around kind of remote working, look, we've enabled lots of companies to work remotely, whether it was an aerospace and defense company on G Suite, 100,000 people, to the NHS hospital system on Teams, over a million people. Companies have really adapted and where we have the advantage and because we've been so remote and because we're a global company and have a strong tradition of working with our clients around the globe, we've just adapted very quickly. And you see that in our strong bookings, which are higher than last year's Q3, and in what we expect in Q4.

Tien-tsin Huang
Great. That's good stuff, good color. I'll get back in the queue, thank you.

Julie Sweet
Thanks.

Operator
Your next question comes from the line of Lisa Ellis from MoffettNathanson. Please go ahead.

Lisa Ellis
Hi, good morning, and good to hear your voices. Just a follow-on on Tien-tsin's question. I mean you, obviously, were quoted, solid revenue in 3Q, solid growth in bookings, have a strong pipeline again for 4Q. At the same time, the WEO just downgraded its economic outlook to nearly a 5% decline for the year, so, which is pretty terrible. So I'm just trying to – can you provide color on how those two things and those two trends reconcile? Meaning are you seeing that businesses either, A) have not made revisions yet to their overall IT budgets to reflect a weaker, longer term economic outlook, or more optimistically, B) they have, but they have actually reallocated more dollars into IT to drive these digital transformations, or is it that you're picking up share? I mean I guess maybe just some color on kind of how you reconcile those two dynamics? Thank you.

Julie Sweet
Yeah, sure. Lisa, remember what we're guiding to is really modest growth, it would reflect the economic conditions. So what we're seeing in Q4 is we're seeing our business stabilize at what is a much lower level than pre-crisis, with at the high end of the range starting to tick up and improve. So that is what's really, as you said, like that's how you reconcile that. And as I just went through with Tien-tsin, there are parts of our business that are accelerating, like cloud and security and Operations. But a big part of our business, our Intelligent Platform Services business, which is 40%, was growing double digits, moderated in Q3 and we expect a further moderation, reflecting the economic conditions, plus clients that are taking a step back and saying, how do I sequence?

But when you look at what's happening, the IT budgets, all the analysts are telling us and we're seeing it too, is they are declining, but they're focusing on the digital transformation that's needed to navigate. So like the supply chain examples where you have to do this. This is why, Lisa, our position is so important right now. Because what we can uniquely do is provide cost savings while we transform.

When we talk about IT modernization and managed services, we're doing managed services, and we talked about this in prior quarters, called Living Systems, where we're taking down the cost, but we're helping them have DevOps and Agile at scale to get their product releases faster. We are seeing deals like, if you look at the one I highlighted on SAP, it had two components, for the global beverage company. It was replatforming, but it also had a managed service component that was modernizing and cutting their costs. And so, what we're seeing is this flight to Accenture for the quality, because we can deliver, a flight to the ability to increase investment capacity and decrease costs, but still modernize like what we do with Operations.

And so, of course, we're going to be impacted, we've got severely impacted, as we went through, businesses, in industries that, of course, we're feeling all of those affects, but we believe our results – you know, we don't know, nobody else has reported yet, are taking share in this environment.

Lisa Ellis
Terrific, thank you. And then, maybe my follow-on is just on the talent side. Can you provide, I mean, I know you're in an environment where attrition just dropped to 11%, not surprisingly, given the environment. Utilization is also down a little bit but, of course, you're continuing as you said, to maintain promotions, maintain hiring, can you just remind us of how you manage talent through this type of environment, so you emerge with a stronger bench on the other side? Thanks.

Julie Sweet
Sure. I mean it's a great question and something we really focus on because our competitive advantage is phenomenal talent. And the underlying fundamentals of the market, the need to digitally transform, and of our business, remain strong. And so, we are very focused on preserving that great talent and our strategic capabilities because we have everything from Strategy & Consulting to Operations, and so that's been our principle.

So we're pulling the usual levers of less hiring, except in specific areas, of replacing subcontractors, where we don't need it. We continue to promote, but we moderated the promotions, but it's important that we're delivering still on it. We've delayed some start dates, as you would imagine.

The second thing we're doing is, we did just put in this new growth model, and we were able in a more simplified organization to identify efficiencies, so we're going after some cost, structural decreases that are helping. And then as we move forward, we'll do things like, we're in our annual performance process. And so, the pace of how we do our, kind of business-as-usual managing out of our lower performers is another lever that we can pull as we look forward. And what we're really focused on is making sure, like say for our Intelligent Platform Services business, yes, it's moderating, but we know it is an absolute critical part of our business.

So we're doing a lot of upskilling. I mean, I'm going to give you a number that I think is so phenomenal. Since the beginning of March, when we hit COVID and we saw the shift in demand, in Technology, we have reskilled 37,000 people in hot areas like cloud, since the beginning of March. And these are in, sort of, on average 15- to 20-hour modules of reskilling to pivot. We've taken our Strategy & Consulting people and pivoted to some of the needs for Operations in the public sector, because again, those are, also require those insights.

And the resiliency of a business like ours, because we're in multiple industries, multiple types of work and we're able to kind of seamlessly move people who are used to working in these multi-dimensional teams anyway. And by the way, our people love it because they get great new opportunities.

So we feel really good about how we're managing it, and to your point, Lisa, we think we're going to come out much stronger because of how we're delivering for our people.

Lisa Ellis
Terrific, great color. Thank you. Thanks guys.

Operator
Your next question comes from the line of Dave Koning from Baird. Please go ahead.

Dave Koning.
Yeah, thank you and congrats. My question, the New really didn't decelerate that much, and maybe that is just a function of exactly what you're talking about, some of these newer products doing well, while some of the older, the older part decelerated more. As the economy comes back eventually, do you think the New kind of just gets to just a higher level of growth and then the older services just stay at a lower level? I mean is that really what we're seeing now?

Julie Sweet
I mean if you sort of look at it, I always start with, like, we're in this big shock. I mean, how fast the economy went down, the need that every business is now a health business and so, all of these. So I don't read too much into a quarter's sort of response in terms of now New versus legacy, other than the impact of what's happening to have to move to online everything and remote will absolutely require and is requiring and that's what we see in our pipeline, an acceleration of building the digital foundation, which means companies are going to have to make more choices.

We used to tell you our theory was, in a financial crisis, that the rotation to the New would make us more resilient and that's what is absolutely the facts. So we see what's happened. You have to be more digital and that's going to stay, and that will no doubt have some effects on where you're spending the money. But it's part of what's driving what we're doing now with our managed services and helping modernize those for our clients in a more cost-effective way to get our clients to the New. And a lot of what we're doing now is taking all of our learning capabilities and building that in for our clients to help them rotate their talent, which they need to do as well.

Dave Koning
Great. Thanks. And one quick numbers question. The new reporting on segments with the geos, the margins in the Growth Markets have been very high this year and specifically in Q3, was very high. I think 21%. Is there something changing in the environment that allows those margins to be higher? Is that going to continue or maybe it's just a short-term blip?

KC McClure
Thanks for the question. This is the first time that we have provided operating income by Market. And the way, I would just say, to take a look at operating income across our markets, Dave, would be the very same way that you thought about it as it relates to the operating groups. Like you're going to have – we're going to have variations by markets, just like we did throughout the years in operating groups. It's really going to be impacted by the services that we do in that market, the mix of industries that we have, any type of economic impacts that are happening in a specific market, as well as any investments that we're making particular to that geography.

So I think the lens I would look at operating income would be the same as we've always historically done against operating groups, and we manage, obviously, to overall Accenture operating income. As it relates specifically to the Growth Markets, we had very strong performance in our Japanese business, which is a major growth driver. And overall, our contract performance and profitability is very strong in the Growth Markets.

Dave Koning
Great, thanks, guys.

Operator
Your next question comes from the line of Harshita Rawat from Bernstein. Please go ahead.

Harshita Rawat
Hi, good morning, Julie, KC. My question is we are seeing in this environment that many companies are starting to rethink work from home policies as a margin driver longer term, given the higher productivity they're seeing in this remote working environment. Is this something you're seeing, looking at and more broadly, what are some of the positives and negatives in this new working environment? Thank you.

KC McClure
Yeah, I'll start and Julie can certainly weigh in. I think one of the things, you asked about margin, and unique in this environment is, what I would say is that – and we're taking full advantage of this – is the fact that we are really not traveling, particularly for non-billable events and meetings. And so, we are using – we're taking full advantage of that and making sure that we continue then to use that extra capacity to invest in our business, to preserve our talent, while at the same time, giving margin expansion.

So I think for us, that's probably the bigger change within this environment. We've always been able to work from home to a great degree, and within our centers, we have been able to make that change as well this quarter, but that's not really going to be a significant increase or decrease in margin in and of itself.

Julie Sweet
As it relates to ourselves, it's complicated. Like in our Operations business, it's 24/7, we run shifts and we get to have the advantage of sort of using assets over and over. So it's not a straightforward sort of discussion around that, but maybe let's just take a step back. What are the realities?

We're open in 30% of our offices now, but we're not putting a lot of people back in the office and neither our clients around the globe, because we're dealing with an ongoing health situation. And so, whether you like it or not, remote working is going to be here to stay at a pretty high level for some time. And so, we and our clients are focused on understanding where does that make sense?

I was just talking to a technology company yesterday, where what they've said is, look, everything's working pretty except R&D, not because R&D needs to be in the office, but they're just struggling to collaborate as well. And so, company by company, we are learning.

I give a lot of advice to CEOs about this because there's some who got really excited about, let's get rid of all our real estate. Back in the '90s, we pioneered remote working and we called it hoteling and, in particular, in the U.S., we took out a lot of real estate because we said, oh, our people are at client sites or they could be home. And what we found, in fact, over the last five years when I was running North America, we started gradually to expand the footprint again because there's a benefit of bringing people together as well.

So we've proved you can innovate remotely, I gave some of those examples, but I would say, it's going to be cautious. With respect to sort of driving our business, what it has helped CEOs really understand is in some of the areas and some industries that have resisted, say, finance and accounting in certain areas say, no, no, no, we need to have the teams together, is to recognize that they can really rethink what should they do in-house, what can they rely on a partner like Accenture for, how to get the right balance both from an expertise and a cost perspective, but just as much, this idea of leveraging others for digital transformation. And you're going to see more of that thinking.

I mean when you move to the cloud, you're basically saying, you'll have these important permanent third-party partners that are running your business. And so, how digital transformation happens at speed going forward is really going to be this weaving of partners together, which is why the fact that we're so trusted really helps us in this environment.

Harshita Rawat
Great. Thanks very much.

Operator
Your next question comes from the line of Edward Caso from Wells Fargo. Please go ahead.

Edward Caso
Hi, good morning. Can you talk a little bit more about your Consulting bookings? How much of the sort of the solid quarter that you had was related to responding to the COVID crisis? And I'm not sure I heard it in the response to Tien-tsin's question, but the strong awards outlook for Q4, how does that split out between Consulting and Outsourcing? Thank you.

KC McClure
Yeah, hey, Ed, nice to talk to you. In terms of what we're guiding to in Q4, we see overall stronger bookings and I'll leave it at that in terms of, we don't really give a sense or guide to the overall fourth quarter. And I think just in terms of what was in our Consulting bookings, Julie provided a lot of color. We had, as we've talked about, our overall bookings were 70% in the New, which is digital and the move to the cloud. Security was really important in this current environment, as well as other digital areas.

So, Julie, I don't know if there's anything else in addition you want to add on?

Julie Sweet
As I said, our bookings were kind of, sort of split between Outsourcing and Consulting, sort of similar to that pattern overall.

Edward Caso
And my other question is around utilization. It went down a few points here. Have you found bottom yet on utilization? We're sort of picking up information that you guys are doing some layoffs and so forth, and wondered if you've been able to sort of stabilize the utilization yet?

KC McClure
Maybe I'll just, quickly, on utilization. Yes, we did do a click down in Q3, Ed. It's nothing that we're concerned about. It's really a bit, particularly in Operations and our centers, as we've moved, through the time that we moved to where you work from home, as well as there were some elements, minor elements, of work from home restrictions. But that said, it was within the zone that we expected and we continue to deliver for our clients in the time of need.

Julie Sweet
And with respect to managing, as I said before, we've identified some real areas of efficiencies, and so that has, obviously, headcount implications to it, which maybe is what you're calling layoffs. We really see it as focusing on our cost structure and then, otherwise, kind of managing our supply and demand, as I went through before, pretty ordinary course. We don't see it as some extraordinary workforce actions. And remember, the Q4 guidance builds that in, in that we think we're either stabilizing to slightly up in terms of our business environment. If you look at our guidance, we're pretty pleased. I mean Q3 had a great strong March. We don't have that in Q4 and we do see our business either stabilizing or slightly up.

KC McClure
Yeah, just another fact on that too, as you saw from our headcount, it went up subsequentially, 1% for the quarter, and we're up over 6% for the year.

Edward Caso
Great. Thank you.

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

Operator
Okay, that question comes from the line of Bryan Bergin from Cowen. Please go ahead.

Bryan Bergin
Hi, good morning, thank you. I wanted to ask on bookings conversion. Can you comment on clients' willingness to ramp up some of these large projects in this environment? I'm curious if you're seeing any extension of the period between signings and project start-ups and how that might impact near-term outlooks?

Julie Sweet
Well, I mean our outlook includes kind of what we're seeing, and it's a little bit all over the map. You've got some clients who want to go faster because they need the savings faster. You have other clients who may be having a slower ramp-up. So I'd say it's mixed.

KC McClure
Yeah, and I think maybe in terms of our outlook, maybe the way I'd answer it too is that if you look at our Q4 revenue guidance, I would think there's really, kind of what would put us in the top versus what would put us in the bottom, there's probably two swing factors. One would be really how that industry dynamic that we talked about, how that continues to play out, and then how the Strategy & Consulting work evolves in the quarter.

Bryan Bergin
Okay. And just on your comments on digital, can you give us a sense on how those underlying components performed, Interactive relative to cloud and security? Any quantification there?

Julie Sweet
We don't normally quantify that, but as I told you earlier, we had Accenture Interactive pre-crisis, had been significantly growing and it was significantly impacted in Q3, and that's primarily around industries and kind of focused, so you've got that. And then whereas you sort of look at cloud, that really was up and security was up. And remember, Intelligent Platform Services came down. So those are kind of the big components that we normally kind of give you.

KC McClure
Yeah, I would just say that, when we talked about the industry dynamic that I talked about earlier, that really plays out the same way with Accenture Interactive. There was growth in Accenture Interactive in the less impacted industries, and they had also, similar dynamics in the areas that had more pressure, industries that had more pressure this quarter, they had some declines.

Julie Sweet
Great. Well, thank you everyone. Before I wrap up, I did want to give a special shout out to Fabio Benasso, who leads our Italian business, to his leadership team and all of our people in Italy. As you all saw, Italy was actually in lockdown in the entire three months of the quarter and it was an extraordinarily difficult time. And yet, they delivered 8% revenue growth in local currency in Q3 because they stayed so close to our clients and to each other. And I just thought it deserved a very special mention.

As I wrap up, we really believe that Accenture is uniquely positioned today to help our clients succeed in the current environment both because of what we do, as well as how we do it — we are committed to shared success with our clients, people, shareholders and communities, to living our core values and to being a trusted leader in responsible business.

Thank you to our people and leaders for how you come together every day to deliver on our commitments.

And a special thank you to our shareholders, for your continued trust and support.

Be well everyone, and thank you for joining.