

Accenture

2nd Quarter Fiscal 2021 Conference Call

Conference Call Transcript

March 18, 2021/ 8:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Angie Park** – *Managing Director, Head of Investor Relations*

**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 2021 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 2021. 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](https://www.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 proud to announce outstanding financial results for the second quarter of fiscal '21, and our return to pre-COVID level financial results a quarter earlier than we expected and with a tough compare.

Let's first go back 12 months ago, on March 19, only 8 days after the pandemic was declared, when we were together to announce our outstanding fiscal year '20 Q2 financial results – results you may not remember because at the time, we were all focused on the go-forward potential impact of the pandemic. In Q2 of fiscal year '20, we had 8% revenue growth in local currency, our then-highest bookings ever of \$14.2 billion and strong underlying profitability and free cash flow. We also announced that 18 clients that quarter had bookings over \$100 million.

With this backdrop of fiscal year '20 Q2, the significance of this Q2's results in fiscal year '21 becomes even more clear.

- We have delivered 5.4% revenue growth in local currency, which includes a reduction of 2 percentage points from a decline in revenue from reimbursable travel costs – meaning apples to apples, 5.4% is in the zone of FY20 Q2 revenue when you exclude the travel costs-related revenue.
- We have delivered bookings of \$16.0 billion – beating our previous record set in Q2 last year by \$1.8 billion, and we have delivered strong profitability and free cash flow.
- This quarter, 18 clients had bookings over \$100 million, and we continued to take market share faster than pre-COVID.
- In H1, we have accelerated our investment in V&A, with approximately \$1.1 billion of capital deployed, and we are increasing our programmatic V&A investment to at least \$2 billion for FY21 from the \$1.7 billion we previously communicated.

And for the last 12 months, we have remained consistent: we gave guidance every quarter, which we met or beat, we deliberately invested in our people and preserved our talent to continue to serve our clients as demand came back, and we continued to significantly invest in our business and our communities. And throughout, we have lived our core values, including maintaining, without pause, our commitment to make more progress on diversity and inclusion and sustainability.

These financial results reflect these choices, the strength of our core values and the power of our laser focus on creating client value and being a trusted partner, as well as our incredibly talented people, strong ecosystem relationships and the resilience of our growth strategy as well as the substantial investments we have made year in and year out since we set out to be the leader in digital, cloud and security and continuous innovation. They also reflect the operational rigor and discipline that long has been a hallmark of our success.

I want to thank our people for their hard work and continued dedication to our clients and for delivering on our commitments.

KC, over to you.

#### **KC McClure**

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

We were very pleased with our overall results in the second quarter, which exceeded our expectations and reflect strong momentum across our business. We are particularly pleased with our record new bookings and strong revenue growth which demonstrate our leading position in the market as a trusted partner to deliver value for our clients.

Based on the strength of our second-quarter results and our confidence in the second half of the fiscal year, we are increasing all elements of our full-year outlook... which I will cover in more detail later in our call.

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

- Revenues grew 5.4% in local currency and continue to include a reduction of approximately 2 percentage points from a decline in revenues from reimbursable travel costs. Q2 revenues were nearly \$140 million above our guided range, driven by broad-based over-delivery across all dimensions – markets, services and industries – as our business built back even faster than anticipated. We also continued to extend our leadership position with growth significantly above the market.

We saw broad improvement in industry trends. Approximately 50% of our revenues came from seven industries that were less impacted by the pandemic, which in aggregate accelerated this quarter to low double-digit growth. At the same time, we saw continued improvement from clients in highly impacted industries, which collectively represent over 20% of our revenues and declined mid single-digits.

- Operating margin was 13.7%, an increase of 30 basis points for the quarter and 40 basis points year to date, reflecting strong underlying profitability as we continue to invest in our business and our people, including the one-time bonus we just announced. We continued to benefit from lower spend on travel, meetings and events. And, we delivered very strong EPS of \$2.03, up 10% over fiscal '20 after adjusting both years for gains on an investment.
- And finally, we generated significant free cash flow of \$2.4 billion in the quarter and \$4.0 billion year to date. We continue to execute on our strategic capital allocation objectives with roughly \$3.1 billion returned to shareholders via dividends and share repurchases year to date. We have made investments of \$1.1 billion in acquisitions primarily attributed to 19 transactions in the first half of the year. And, we expect to invest at least \$2 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 \$16.0 billion, representing 13% growth in USD over our previous record in Q2 of last year. We had a very strong overall book-to-bill of 1.3 in the quarter and 1.2 year to date.

- Consulting bookings were \$8.0 billion, a record high, with a book-to-bill of 1.2.
- Outsourcing bookings were also a record at \$8.0 billion, with a book-to-bill of 1.4.

Similar to last quarter, our bookings were driven by both Technology Services and Operations. We were pleased with the strength of our bookings in Strategy & Consulting, with a book-to-bill of 1.2.

Turning now to revenues...

Revenues for the quarter were \$12.1 billion... an 8% increase in USD and 5.4% in local currency, including a reduction of approximately 2% from a decline in revenues from reimbursable travel costs.

- Consulting revenues for the quarter were \$6.4 billion – up 4% in USD and up 1% in local currency, including a reduction of approximately 3% from a decline in revenues from reimbursable travel costs.

- Outsourcing revenues were \$5.6 billion – up 14% in USD and 11% in local currency.

Taking a closer look at our service dimensions, both Operations and Technology Services grew double-digits. As expected, Strategy & Consulting Services declined high single-digits, and we expect Strategy & Consulting to return to growth in Q3.

Turning to our geographic markets... the industry dynamics that I mentioned earlier continued to play out in a similar manner across all three markets.

- In North America, revenue growth was 7% in local currency.
- In Europe, revenues grew 3% in local currency, driven by mid single-digit growth in Italy and the UK.
- In Growth Markets, we delivered 6% revenue growth in local currency driven by double-digit growth in Japan.

Moving down the income statement...

Gross margin for the quarter was 29.7%, compared with 30.2% for the same period last year.

Sales and marketing expense for the quarter was 9.4%, compared with 10.4% for the second quarter last year.

General and administrative expense was 6.6% compared to 6.4% for the same quarter last year.

Operating income was \$1.7 billion in the second quarter, reflecting a 13.7% operating margin, up 30 basis points compared with Q2 last year.

Before I continue, as a reminder, in Q2 last year we recognized an investment gain which impacted our tax rate and increased EPS by \$0.07. This quarter, we again recognized an investment gain which impacted our tax rate and increased EPS by \$0.21. The following comparisons exclude these impacts and reflect adjusted results.

Our adjusted effective tax rate for the quarter was 17.5%, compared with the adjusted effective tax rate of 17.1% for the second quarter last year.

Adjusted diluted earnings per share were \$2.03, compared with adjusted EPS of \$1.84 in the second quarter last year. This reflects a 10% year-over-year increase.

Days Services Outstanding were 34 days, compared to 38 days last quarter and 39 days in the second quarter of last year.

Free cash flow for the quarter was \$2.4 billion, resulting from cash generated by operating activities of \$2.5 billion, net of property and equipment additions of \$93 million.

Our cash balance at February 28<sup>th</sup> was \$9.2 billion, compared with \$8.4 billion at August 31<sup>st</sup>.

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

In the second quarter, we repurchased or redeemed 4.6 million shares for \$1.2 billion, at an average price of \$255.29 per share. As of February 28<sup>th</sup>, we had approximately \$5.0 billion of share repurchase authority remaining.

Also, in February, we paid a quarterly cash dividend of \$0.88 per share, for a total of \$561 million. This represented a 10% increase over last year. And, our Board of Directors declared a quarterly cash dividend of \$0.88 per share to be paid on May 14<sup>th</sup>, a 10% increase over last year.

So, at the halfway point of fiscal '21, we feel really good about our results to date and our positioning for the remainder of the year... realizing that the pace of recovery is hard to accurately predict.

Now let me turn it back to Julie.

**Julie Sweet**

Thank you, KC.

Let me start with the environment. We continue to see compressed transformation, where companies have to simultaneously transform multiple parts of their enterprise and reskill their people in what previously would have been sequential programs. They're doing so to re-platform their businesses in the cloud, address cost pressures, build resilience and security, adjust their operations and customer experience, and find new sources of growth.

COVID has hit a giant fast-forward button to the future, and we believe the demand to innovate at unprecedented speed and scale, with rapid adoption of cloud, AI and other disruptive technologies, is accelerating. For digital leaders, we see them no longer strictly competing for market share but to build their vision of the future faster than the competition. And for digital laggards, they are determined to not simply catch up but to leapfrog. While COVID has accelerated the demand, the reality is that the extent of transformation ahead is enormous – the move from approximately 20% to 80% in the cloud alone is a huge undertaking, and it is just the start, as companies will then continue to invest, to grow and innovate on their new cloud foundations.

Which leads me to the role we are playing. In Q2, our engines of growth across Accenture have roared to life to meet these needs of our clients, and we see strong momentum going into Q3. I will share some color and examples.

We called the once-in-a-digital-era re-platforming of businesses into the cloud in September 2020, when we created Accenture Cloud First to bring industry, cloud and state-of-the-art change management and transformation together. We saw this quarter strong double-digit growth in Cloud overall, as well as the subset of Accenture Cloud First where growth was even higher.

Intelligent Platform Services, which is essential to building the digital core of our clients, is back to high single-digit growth as companies resume this critical aspect of their transformation.

Applied Intelligence, with our data and AI solutions, and Security, both sizeable but still in the early stages of the scale we expect long term, both had strong double-digit growth in Q2.

Operations grew double-digits as companies seek to digitize their enterprises leveraging our deep industry and functional expertise and AI-driven SynOps platform.

Interactive improved and grew high single-digits as companies continue to shift to digital channels, need cost efficiencies around sales and marketing to invest in new capabilities, seek more data-driven marketing campaigns, and compete for customers and employees on the experience they provide.

Industry X, which is helping diversify our sources of revenue in the enterprise, grew strong double-digits, driven by the need for product engineers to accelerate the time-to-market of smarter and more sustainable products, and the need to enhance the efficiency and flexibility of manufacturing facilities and the ability to interconnect machines and operate remotely.

These engines of growth are multi-service, bringing the best of Accenture's Strategy & Consulting, Interactive, Technology and Operations services together to create value. We are distinctive because no other competitor has our scale and breadth of services, which allows us to seamlessly serve the different dimensions of compressed transformations. We also are able to give our clients speed and cost levers through our managed services to digitize using our assets and platforms and address cost pressure.

Furthermore, our distinctive capabilities in industry, innovation and investment are clear differentiators. Our strong Strategy & Consulting practitioners bring deep industry expertise to all functions of the enterprise and help bring together our services to deliver to our clients, often informed by cross-industry insights such as for payments and omni-channel engagement. Our ability and commitment to consistently invest in acquisitions, R&D and our people is unmatched in our industry. And our clients know that through our investments and focus on innovation we will help future-proof them, such as our innovation in emerging technologies like the work Accenture Labs is doing testing applications using neuromorphic computing, where circuits are modeled after systems in the human brain and nervous system to deliver new AI capabilities. And our 360-degree value strategy, which seeks to bring talent upskilling, diversity and inclusion and sustainability to our work is resonating with our clients as they seek to make progress as they transform.

Two great examples of compressed transformation, strong leaders and our 360-degree value strategy are AIG and Shiseido. We are partnering with AIG, a leading global insurance organization, to help them drive their AIG 200 program, which is designed to achieve underwriting excellence; modernize their operating infrastructure; enhance user and customer experience; and become a more unified company. This quarter we acquired AIG's shared services operations, which we will transform to serve AIG to create a modern digital shared services platform with end-to-end processes that will improve the user experience using our SynOps platform and, consistent with our 360-degree value strategy, we are investing in upskilling our new employees.

We have entered into a strategic partnership with Shiseido, a leading global beauty company headquartered in Japan. Shiseido has launched a fundamental business transformation aiming to become a global leader in premium skin beauty by 2030, under its new medium- to long-term strategy "WIN 2023 and Beyond." We are partnering with Shiseido to accelerate digital transformation and create personalized and seamless customer experiences, to design, develop and implement a cloud-based system that will help it adopt processes that enable continuous financial reporting, better forecasting accuracy and more precise inventory management. We

are helping them use AI, analytics and automation to create new business value and helping employees gain high-level digital skills.

We are working with SpecSavers, the UK-based leader in optometry, audiology and other healthcare services, to reimagine and transform their entire IT organization through our Living Systems approach. We are leveraging new ways of working and agile foundations to capture efficiencies and reduce costs while positioning the company for growth and diversification to drive business resilience.

With our managed security services, we are helping a central bank in Asia strengthen their resilience against cyber threats and build in the flexibility to securely grow their payment transactions from millions to billions at speed and scale.

Our Industry X team is helping Formula 1 relaunch its F1 TV Grand Prix racing product. By using the cloud-based Accenture Video Solution, live streams from 20 track-side and on-board cameras, and a growing range of connected devices, we are continuously innovating to embed intelligence in their platforms to deliver the best possible viewer experience.

Now let me turn to Accenture's greatest and undeniable competitive advantage – our nearly 537,000 people. They are at the heart of our outstanding results.

Fundamental to our core values is to care deeply for our people and we place significant importance on providing a meaningful employee experience.

For almost every person around the world, living and working during the pandemic has been challenging. To help our people succeed both professionally and personally during this time, we have put in place many programs.

For example, we are partnering with Bright Horizons in the U.S. through development of an innovative program for school-aged children to receive proctoring for their virtual studies and homework.

We have extended telemedicine to parents of our employees in India. And we are providing industry-leading mental wellness programs, including Thriving Minds, a holistic well-being program that teaches us about the science behind stress and how to recharge your brains' battery.

We are proud that more than 160,000 of our people have completed the program with impressive results, including nearly 9 out of 10 participants reported feeling significantly better able to handle challenges in the workplace.

Equally important is our focus on vibrant career paths. We have maintained pay increases, bonuses and promotions, both in our normal December time period as well as an added round of promotions in February, enabling us to promote in total at the same level as the prior year. Additionally, we will expand our regular mid-year promotions this coming June to include managing directors – a first in our company's history – as one more way we continue to create new opportunities for our people.

And today, we are announcing a special, one-time bonus for all of our people below managing director to recognize the contributions and dedication to our clients during this difficult year.

Continuous learning also is a defining feature of Accenture. We continue to invest in our people and their market-leading skills with a 28% increase in training hours and 25% increase in hours per person just this quarter.

And coming back to our ability to attract talent, we know that people want to work for companies that not only create value but also lead with values. We are proud this quarter to have been named for the 14<sup>th</sup> consecutive year on Ethisphere's World's Most Ethical Companies list and for the 19<sup>th</sup> consecutive year on Fortune's World's Most Admired Companies.

Our strategic decision to preserve our talent last year, including our recruiters, provided a strong base to meet the surge in demand we have experienced. Recruiting, hiring, and managing supply and demand has always been a core competency, and we are confident in our ability to attract talent and continue to meet the increased demand. We increased hiring approximately 50% both year-over-year and since last quarter, and we've onboarded over 100,000 people virtually over the last 12 months with new, innovative approaches.

I would like to recognize the extraordinary leadership and efforts of our chief leadership and human resources officer, Ellyn Shook, and her outstanding team around the globe for how they have helped care for our people throughout the pandemic, guided us through health and safety of COVID, are ensuring that we are continuously reskilling our people, and have helped us manage and realize the incredible expansion of our talent to meet the needs of our clients.

Over to you KC for a look ahead....

**KC McClure**

Thanks Julie.

Let me now turn to our business outlook...

For the third quarter of fiscal '21, we expect revenues to be in the range of \$12.55 - \$12.95 billion. This assumes the impact of FX will be about positive 4.5% compared to the third quarter of fiscal '20 and reflects an estimated 10% to 13% growth in local currency.

For the full fiscal year '21...

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 positive 3% compared to fiscal '20.

For the full fiscal '21, we now expect our revenue to be in the range of 6.5% to 8.5% growth in local currency over fiscal '20, including approximately negative 1% from a decline in revenues from reimbursable travel, based on a 2% reduction the first half of the year, and no material impact in the second half of the year.

For operating margin, we now expect fiscal year '21 to be 15.0% to 15.1%, a 30 to 40 basis-point expansion over fiscal '20 results.

We continue to expect our annual adjusted effective tax rate to be in the range of 23% to 25%. This compares to an adjusted effective tax rate of 23.9% in fiscal '20.

For earnings per share, we now expect full-year diluted EPS for fiscal '21 to be in the range of \$8.67 to \$8.85. We now expect adjusted full-year diluted EPS to be in the range of \$8.32 to \$8.50, or 12% to 14% growth over adjusted fiscal '20 results.

For the full fiscal '21, we now expect operating cash flow to be in the range of \$7.65 to \$8.15 billion, property and equipment additions to be approximately \$650 million, and free cash flow to be in the range of \$7.0 to \$7.5 billion. Our free cash flow guidance continues to reflect a very strong free cash flow to adjusted net income ratio of 1.3 to 1.4.

Finally, we now expect to return at least \$5.8 billion, an increase of \$500 million, through dividends and share repurchases as we remain committed to returning a substantial portion of 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**

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 question at any time by repeating the 1, 0 command. If you're using a speaker phone, please pick up the handset before pressing the numbers. Once again if you have a question, please press 1 and then 0 at this time.

One moment please for your first question. Your first question comes from the line of Tien-tsin Huang from JP Morgan, please go ahead.

**Tien-tsin Huang**

Thanks. Terrific results here. I can't remember, I was thinking, the last time you guys raised your margin outlook, especially against such strong bookings and investments like Cloud First you talked about. Plus this one-time bonus to employees, etc. So what's different this time, to allow you to do that, to raise margins modestly against some good momentum here? And I'll ask my follow-up just together with this, which is given the big bookings, thinking about contract execution, do you feel good about sort of the level of expectations you need to deliver here to keep this momentum going? Because I know you put a lot of hard work into driving up the bookings here, but I'm curious if there's anything different to consider here with contract execution looking ahead? Thanks.

**KC McClure**

Okay, thanks, Tien-tsin. So, in terms of operating margin, let me just cover with you what's the driver this year of our 30 to 40 basis points operating margin expansion. And you're right, it is unusual for us to expand our operating margin halfway through the year. And so, implied in our guidance for the year is obviously continued healthy margin expansion in the back half. That's in addition, Tien-tsin, to the 40 basis points that we've already done year to date. And then, as I mentioned, which does include the impact of the one-time bonus that we're doing for employees below managing director.

And I'll just maybe highlight a few things in terms of drivers for the expansion this year. I mean, as always, we first look to strong revenue growth, and we have that again this year and that's coming along with increased contract profitability. We do have increased contract profitability coming through in our gross margin in the first half of the year, and that's really the first lever that we always look at.

Within this year, uniquely, there are a couple things. One is utilization. So, we are getting some additional margin expansion this year based on our higher utilization rate. We talked about that last quarter that we're looking to bring that down to more normal levels. It did go up this quarter and we're still working on that. But, clearly, the first half of the year, and into the second half, there will be some benefit to operating margin expansion on that.

And the second part is due to the lower travel, events and meetings spend this year. So, we are going to benefit from that overall for the full year, but that benefit really is in the first half of the year. As the baseline last year, in the back half, as you know, we really didn't travel or have meetings. So, it's not a benefit that we'll have in the back half of the year.

And I think overall the key thing though in operating margin is that we always look to drive strong underlying profitability because we want to ensure that we're investing first in our business, because we want to drive long-term shareholder value. And so, that's really the critical part that we're able to continue to invest in our business and in our people and in acquisitions, but while at the same time, expanding operating margin significantly.

### **Julie Sweet**

Yeah, and Tien-tsin, why don't I take the question about execution. We're very confident about our ability to execute. And let me just remind you that one of the things that's really benefitting us is just our absolute excellent performance when the pandemic started and we had to move all of our people from our centers, while our clients were having to move remotely.

As you'll recall, I shared that we closed the books for 70 public companies and we did so without missing a beat. That we, on average pre-pandemic, have a new release every 15 minutes, 24 hours a day, on the technology, 7 days a week and we have continued with that execution.

And, in fact, one of the things that we believe is driving our growth is that we enhanced our standing with our clients because of how we've been able to execute, while at the same time, we helped many of them move online. So, we feel very good.

Our Centers and our people across the globe in terms of delivery are just amazing and I should thank them because at the end of the day, that's what really matters for our people and we really just have exceptional people.

**Tien-tsin Huang**

Yeah, that's good.

**Operator**

Your next question comes from the line of Lisa Ellis from MoffettNathanson, please go ahead.

**Lisa Ellis**

Hey, good morning. Nice results here. Julie, I wanted to kind of rewind the clock back to early 2020, which obviously feels like eons ago now, but when you reorganized Accenture to pivot to more focus on the geographies and geographic expansion, now that we're a year plus in and the dust has settled a little bit. Can you just kind of bring us back to that and reflect on what's working well with that pivot, what's working maybe less well or has been more challenging than you expected, and what's the difference about operating in Growth Markets, just realizing that those – that the Growth Markets are an important part of the growth story for Accenture going forward? Thank you.

**Julie Sweet**

Sure, great question. You know, one of the things that we look back on internally as a leadership team was that we actually were very bold in our ambition in my first year as CEO, to actually put that new model in place only six months into the fiscal year and change our P&L in the middle of the fiscal year. And we look back and I often use it as a lesson as to speed matters, because as you think about our execution during the last 12 months, we did so with a new leadership team and a new way of working.

And what it really demonstrates was we made the right strategic move. Driving the move from industry to geography were a few things. And remember, what we did was we also put digital everywhere, so we simplified because digital was now the core of our business. But the first thing is what we call the client proximity imperative. We had such scale in all of our markets, we wanted to put our leaders really closer to our clients, while at the same time, really enhancing the ability to move innovation around the world and we did that by massively simplifying. And so, at the one hand, we made a geographic P&L, but on the other hand, we made critical changes to actually make it easier to move innovation around the world.

And, secondly, we felt as if the ability to simplify and then have teams come together across our services would really unlock value. And, of course, we did that before we had COVID, but we've seen the acceleration of the need for that because our clients are really looking for the ability to bring outcomes.

And so, just think about the work that we are doing right now. Like I take BBVA, which you may know is a customer-centric global financial services company headquartered in Spain. And we have worked with them to move – they wanted to increase their digital sales and that brings together Operations, all of our Interactive capabilities like paid media, search engine optimization, analytics and marketing operations, plus our deep industry experience. And with our support, over the last 12 months they've grown their digital sales [to more than 50% of total sales] and they saw an increase in [new] digital customers of more than 50%. [corrected] The ability to bring those services together seamlessly to deliver those outcomes has really been enabled by that growth model that both simplified, recognized that the core of our business is now digital, cloud and security, and enabled us to really meet the needs of the client globally.

In terms of Growth Markets, there's really nothing different there. I mean the geographic model helps us both focus on the opportunity in each of the markets, while at the same time, really connecting the innovation and being able to serve global clients better.

**Lisa Ellis**

Perfect. Thanks. Maybe my quick follow-up is maybe for KC, a follow-up on Tien-tsin's question. I know you said, yes, you're running a little hot on utilization right now and you commented on that as well last quarter. I'm curious though, with the shift to remote work, one, do you think that shift is going to remain more permanent and will it allow you to actually maintain a higher level of utilization on a more permanent basis?

**KC McClure**

Yeah, so, thanks, Lisa, for the question. Yeah, I will just reiterate. We are trying to – we are working to get it back - our utilization back into a more normal range. It did pick up this quarter and that really is tied to the increased demand that came back hotter than we expected. But we continue to believe that the right answer for our people is to lower it back into our more normal historical ranges.

And in terms of, is there a structural change? Our belief is no, that over time, there's really not a structural change in utilization. There is probably some increase right now due to remote working, but we don't see on go-forward any long-term structural change in our utilization rate.

**Julie Sweet**

Yeah, and just remember, Lisa, like we have a very important value proposition that includes being able to do continuous learning, but also, the right level of time to do strategic thinking, for example, and to come together around important initiatives. And so, that's why we believe that over time, we really should get back into kind of a more normal range, regardless of where people are working from.

**Lisa Ellis**

Terrific, thank you. Thanks a lot.

**Operator**

Your next question comes from the line of Ashwin Shirvaikar from Citi, please go ahead.

**Ashwin Shirvaikar**

Thank you. Hi, Julie. Hi, KC. Congratulations, these are tremendous results. I hate to keep bringing up margin again and again, but one thing I did not necessarily hear you explicitly call out was pricing, which one might expect given sort of a price-for-value component, given the mix as you primarily do digital cloud and security. And also, frankly, a shortage of resources, which was also going to be my follow-up question is that your attrition has ticked up. It's still below historical levels. I see all the steps you took towards employee health, wellness, eventually controlling attrition, but as demand accelerates across the industry, do you expect attrition to return to historical like mid to upper-teens type levels?

**KC McClure**

Thanks, Ashwin, for the question, so I'll cover the pricing part and then, I'll hand it over to Julie to talk about attrition. And so, I'll just start with context overall what we're seeing in the overall

market in the business environment. So, as we've been saying and we continue to see that the business environment does remain competitive. And in some areas, we experience pricing pressure, but we are seeing signs of stability. So that's probably the first key point.

In terms of the pricing that we have across our different markets or services, as you know, the pricing can vary depending on what it is that we're selling and in what markets that we're doing that commercial arrangement. But what is important and what stays the same is that we always look to make sure that we are doing a smart commercial arrangement that benefits both our clients and Accenture, and that's a key part of our 360-degree value.

But as it relates to what we're actually delivering in terms of profitability, I do want to highlight that within our operating margin and within gross margin, we have expanded the delivery of client profitability and contract profitability. So that's a key part of our operating margin expansion for the year.

And, Julie, you want to talk about attrition?

**Julie Sweet:**

Yeah, look, I think we would expect that we're going to go back to sort of industry norms on attrition, although, we'll always work hard to not do that. And we do believe that we're benefitting right now from the way we have cared for our people and the decisions we made to preserve our talent and invest in keeping them through the lower demand era.

But, certainly, we're tuned as a company to be able to grow and recruit at this level and at the more normal levels, as you said, in the higher teens.

**Ashwin Shirvaikar**

Thank you.

**Operator**

Your next question comes from the line of Bryan Keane from Deutsche Bank, please go ahead.

**Bryan Keane**

Hi, guys, and congratulations from me as well. Just thinking, Julie, about this more structurally longer term, is this growth rate – the back-half growth rate, obviously, being really strong in the back half, double-digit growth implied for both the third and the fourth quarter. How has the pandemic changed things that this could be maybe more sustainable than just kind of a one-time pick-up in growth and maybe the growth could be – I know we've talked about in the past, 5% to 8% constant-currency growth. I'm just wondering if that formula has potentially changed in the future due to the pull-forward of some of the digital transformation from the pandemic?

**Julie Sweet**

We knew someone was going to try to get us to look ahead for next year, but we are not going to.

**Bryan Keane**

You got me.

**Julie Sweet**

But we're not going to. So, instead of trying to look ahead to next year and thinking about next year, let's maybe just focus on how we are looking at our business right now. So, if you think about the last six years, when we started digital, we rotated our business so that now, the core of our business is digital, cloud, security and all of our services, meaning not just – that's not from a technical perspective.

And so, think about what we have built, our engines of growth as the core of our business, which is what we went through when you think about Cloud, Industry X, Applied Intelligence, Operations. The things we went through in our script today. And so, we have these engines of growth, which we continue to invest in. And I think what's really important, the way we think about our businesses, for example, cloud, we've already scaled. We told you last quarter, it was \$12 billion in FY20, but it's growing double-digits because we're at the very early stages of it.

And when you think about Accenture Cloud First, we brought together all of our services, from Strategy & Consulting to experience to cloud, industry experience, because not only are companies having to migrate to the cloud, but they need to create value.

Like we're working with an American entertainment company where we're helping them leverage the cloud to accelerate the time to market of new video services. So, it's not about the migration, it's about the value.

And so, think about our business as having built these engines of growth, some of which already have massive scale and are continuing. And then, others like Industry X. Industry X is a way that we're going to continue to diversify our revenue sources for resilience over the long term. We made two acquisitions this year, SALT Solutions and Myrtle Consulting Group, to help build our manufacturing and supply chain. We're going to continue to invest there. We think about that as the next Interactive in terms of building this new area. And we're at this amazing tipping point right now where we're seeing an acceleration of digitization in manufacturing and in product engineering.

And so, we continue to think about how do we both make sure these growth engines are going, but never have to have another rotation because we're always investing.

And I mean, the last point I would just say is, our capacity to invest in acquisitions has been a huge differentiator in building the business we have today as being, the core of our business is now these engines of growth. And we continue to execute on that in all of our major strategic areas and the next scale plays. And I'd call out the two we made this quarter in cloud, for example, Infinity Works and Edenhouse.

### **Bryan Keane**

Got it. Got it. And just, KC, a quick follow-up. Will travel and reimbursables, will that go up, back to the norms of the recent past? I'm just trying to figure out if some of that, obviously, some of that travel work doesn't have to continue, and so the model slightly changes on that front?

### **KC McClure**

That's a great question, Bryan. Let me just first tell you what we've assumed as it relates to, kind of our revenue. So, we do not have in our revenue guidance an increase in revenue from travel-related expenses. Now, obviously, we're continuing to meet with our clients and do well, and engage with them, as you can see from our record bookings and our really strong revenue growth. But we don't have any of that – we don't that significantly embedded in our revenue.

In terms of, for the rest of the year, we'll continue to see where we are with the travel, and events and meetings as we go throughout the rest of the year and into next year. It's really kind of too early to tell.

Julie, I don't know if you want to add anything?

**Julie Sweet**

Yes, I'd agree. I mean, look, I'm having lots of conversations with companies who are just trying to figure this out. Will travel actually explode once people feel safe because they need to reconnect, will it structurally shift? And I would say that it's really – we think it's too early and companies are really kind of all over the map and, hopefully, we'll have a lot better sense as we get through the next six months and we see vaccinations, variants, and how comfortable people are, but it's still pretty unclear.

**Bryan Keane**

Got it. Thanks for taking the questions.

**Operator**

Your next question comes from the line of Dave Koning from Baird, please go ahead.

**Dave Koning**

Yeah, hey guys, thanks. Nice job. And I guess my first question, Outsourcing growth was the strongest, I think, in six years. And that's really not on an easy comp yet, either. You had a pretty normal Q2 of last year in terms of growth. And I'm wondering is there something within Outsourcing that has kind of step-function changed and just a better level than normal or something happened there that's really triggering growth in such a stable part of your business typically?

**Julie Sweet**

It's a great question and this really is a big driver of how well we're doing now, because when you have compressed transformation where the companies need to do so much at the same time, there's a really sharp focus on what do I need to do? How do I source the talent? And that conversation has absolutely gone faster, but also, how can I digitize every part of the organization? And what Accenture has, which is very unique, is this investment we've been making for years in the SynOps platform, for example, in Operations. And in Technology, things like myWizard and myConcerto, which build in best-of-class AI, machine learning, rapid testing, and these are platforms that we continuously invest in.

And so, what is happening here is that we're helping them digitize, we're helping them focus on what do they really need to have in-house versus can leverage in order to go faster. But one thing I want to be really, really clear about is, although our Strategy & Consulting business continued to have a high single-digit decline, it was better than we expected, Strategy & Consulting is absolutely essential to all of these results, including Outsourcing because what we're bringing to them, it's not simply, oh, it's a lower cost. It's increases in sales through our marketing operations, like the BBVA example I gave. It's manufacturing. At AIG, which I talked about, it's insurance, as well as the process skills. It is helping them transform the ways they're working by being integrated with us where we're bringing modern ways of working and digital.

And so, this is what distinguishes us as a company for our clients. For you guys, it's type of work, Outsourcing versus Consulting, which is basically managed services, it's project work. For our clients, it's our ability to bring all these services together, which is why I emphasize that each of the examples I gave in my script, and I gave you many more, really are pulling all of these things together for an outcome. And when you're going to compress transformation that's more important than ever.

**Dave Koning**

Great. Thanks, that's great. And I guess my just quick follow-up. Every vertical accelerated in the quarter, except for Resources. And so, I'm just wondering on that vertical specifically, that got a little worse, but that has really easy comps in the back half. Anything to kind of call out there on momentum reaccelerating in the future?

**KC McClure**

Thanks, Dave. So, Resources, it came in in the zone that we expected it to. I'll just point out a couple things. So, we've talked about the industries more impacted by the pandemic and Resources clearly has one of those, which is Energy, and that's continued to be under pressure. And I would also say that our clients in the Chemicals industry also have been feeling some pressure as well. But we've seen stability in our Utilities portfolio, which is good.

And go forward, if we look at Q3, we do see improvement in the Resources growth rate.

**Julie Sweet**

Yeah, and by the way, this is where Industry X is going to be so critical. For example, we're working with a North America, one of the largest oil integrators in the world, in reimagining their plants from both a health and safety, security and efficiency perspective. I was just in our brand-new OT Security Lab in Houston last week. Yes, I actually did go on a business trip. And a big focus of OT Security is across all of our both process and discrete manufacturing.

So, there are, obviously, as a set of industries, they've been impacted, but if you think about where we're focused and how we're going to help them from efficiency and safety and security, it's great. We're well-positioned.

**Dave Koning**

Great. Thanks, guys.

**Operator**

Your next question comes from the line of James Faucette from Morgan Stanley, please go ahead.

**James Faucette**

Great, thank you very much. And I wanted to go back to one of the comments you made in the prepared remarks in terms of increasing your programmatic V&A and I'm wondering if you could just give us a little color of how we should think about contribution from that, specific areas of focus, durability, etc., just trying to understand how you're thinking about that initiative, which seems really important?

**KC McClure**

Yes, so thanks for the question. You're absolutely right. I mean our ability to invest significantly in our business, and that includes V&A, is a key competitive advantage. And I will just say, we've been at this for a long time, to your point. It's been a core part of our strategy since 2013. On average, we've done about 20% of our operating cash flow to V&A and that's, our updated guidance of at least 2 billion puts us in that same zone. But it's not just being able to acquire, it's successful integration and so, you can see that that typically provides about 2% of inorganic contribution. And this year, it's going to be more in the 2.5% zone.

So, we really are very focused on that as a key part of our strategy and we will look to continue to invest. As we've said, we can always do more than the 2 billion if the opportunity presents itself, but it is a key part of our investment portfolio.

### **James Faucette**

Thanks. And just turning operationally for my follow-up question. Can you give some color on how much of the strong demand that you're seeing is driven by your partner network this year and where you see the most strength there? And I guess how you think about that part of business generation evolving over the next two quarters and periods?

### **Julie Sweet**

Our ecosystem partners are absolutely essential to our growth. I called them out in our script. We're really proud to be the number one or number two partner with all of the major ecosystem partners. And what we uniquely bring is, because of the strength of our relationships, we can really bring integrated value propositions to our clients and so, those relationships are very high-priority and important to our future growth.

### **James Faucette**

Thanks a lot, Julie. Thanks, KC.

### **Julie Sweet**

Thank you.

### **Angie Park**

Operator, 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. A question on the Outsourcing and Operations strengths. So, you highlighted the AIG shared services deal this quarter. Have you seen a pick-up in captive acquisition opportunities that you've acted upon here over the last several quarters? And I'm curious how we should think about this mix contributing to your outperformance and the pipeline going forward?

### **Julie Sweet**

Well, we shared in prior calls that we do see more interest in captives. You're starting to see us execute on some of them, but I think it's too early to say whether that's going to be a big part of the mix or not, for the reasons I've talked about – we can go in and help digitize.

KC, do you want to add anything?

**KC McClure**

Yeah, I would just say in terms of what we see in terms of the mix for H2, we still see double-digit growth in Outsourcing and for the full year, we'll end up at high single to low double-digits positive growth, in terms of, to give you some sense of the mix.

**Bryan Bergin**

Okay, I appreciate that. And then, just on H&PS and Financial Services, so those both clearly had outsized performance in the quarter. Can you just talk about the key contributors underlying those two?

**KC McClure**

Yes, so we were really pleased with H&PS and Financial Services growth this quarter. H&PS, it continues to be growth that we've seen in Public Service and the work we've been doing during – not just only, but clearly, led by a lot of the work that we're doing within the COVID pandemic space. And in Financial Services, we're pleased that – we do have strength in our Banking & Capital Markets, and that's a statement globally as it relates to, particularly and not only in our business in Europe, but all over and including North America.

So very strong performance in both of those and we expect that to continue.

**Julie Sweet**

Yeah, and it's the things that are, it's cloud, it's the big movement to cloud, it's digital experience, it's more like the example I gave at BBVA. It's basically all the trends that we've talked about are playing out really across industries. And Financial Services is one of the more moderately impacted industries, and they're investing.

**Bryan Bergin**

Thank you very much.

**Julie Sweet**

Okay, great. Well, thank you again for joining today.

Thank you again to all of our incredible people around the globe. And as always, I just want to end by thanking our shareholders for your continued trust in us.

May everyone stay well and healthy.