

Accenture

Third Quarter Fiscal 2022 Financial Results

Conference Call Transcript

Thursday, June 23, 2022 / 8:00 a.m.
Eastern

CORPORATE PARTICIPANTS

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Angie Park

Thank you, operator. And thanks, everyone, for joining us today on our third quarter fiscal 2022 earnings announcement. As the operator just mentioned, I'm Angie Park, Managing Director, Head of Investor Relations.

On today's call, you'll hear from Julie Sweet, our Chair and 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 2022. 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 the 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.

And thank you to our 710,000 people around the globe for their extraordinary work and commitment to our clients, which resulted in delivering another very strong quarter of financial results and creating significant 360° value beyond our financials for all our stakeholders.

Here are a few highlights of the 360° value we created this quarter.

Starting with our people, we continue to invest in their skills, and they completed 10.6 million training hours, which averages to 16 hours per person this quarter.

We are incredibly pleased to be recognized as a top ten Great Place to Work for 2022 in countries representing 76% of our people - Argentina, Brazil, France, India, Japan, Mexico, the Philippines, UK and the United States. Specifically on the US list, we are particularly proud that Accenture jumped 38 spots in one year to rank number six. Overall, this is the 14th consecutive year that Accenture has been recognized by Great Place to Work. Also of particular note, in India, not only were we ranked number ten by great place to work, Business

Today recognized India -- Accenture in India -- as number four of the best companies to work for, marking our 11th consecutive year on the list. All of these recognitions reflect a tangible demonstration of our commitment to our people.

The strong demand for our people and services, and trust from our clients are once again seen in our strong bookings of \$17 billion, which represents 15% growth in local currency. Compressed transformation continues with another 18 clients with bookings over \$100 million, bringing the total year to date to 74, which is 20 more than the same time last year.

We had revenue growth of 27% in local currency, continuing to take significant market share, growing nearly three times the market while delivering margin expansion of 10 basis points.

Our ongoing investment in our communities was reflected this quarter in how we are leveraging our expertise in digital learning and collaboration, partnering with UNICEF's Generation Unlimited on the new Passport to Earning platform program to equip 10 million young people ages 15 to 24 with digital skills across 10 countries to prepare them for work. This program went live this quarter in India, the first and largest country of the ten.

As always, we are staying close to our clients and our ecosystem partners to help them succeed today and to anticipate the needs of the future. And our very strong financial results this quarter reinforce the trust our clients and partners have in our ability to do so.

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 delivered very strong overall results in the third quarter reflecting very strong double digit revenue growth across all dimensions of our business, as well as continued operating margin expansion as we continue to invest at scale in our business and our people.

We continue to lead the industry with these results demonstrating the relevance of our services and our trusted client and ecosystem partnerships. We continue to deliver on our shareholder value proposition including both our financial results and creating 360-degree value for all our stakeholders.

Let me summarize a few of the highlights of the quarter across our three financial imperatives.

Revenue grew 27% in local currency and were above the top end of our guided range, driven once again by broad based over delivery across all markets, services and industries with all 13 industries growing double digits. We once again extended our leadership position, adding an incremental \$9 billion in revenues year to date, with growth estimated to be nearly three times the market, which refers to our basket of publicly traded companies.

Operating margin of 16.1% for the quarter was an increase of ten basis points. We continue to drive margin expansion while making significant investments in our people and our business. We delivered EPS of \$2.79, which represents 16% growth over fiscal 2021 results and includes \$0.15 or 6% negative impact related to the disposition of our business in Russia.

Finally, we delivered free cash flow of \$2.9 billion and returned \$1.6 billion to shareholders through repurchases and dividends. We have made investments of \$2.2 billion in acquisitions, primarily attributed to 27 transactions year to date. And we now expect to invest about \$2.5

billion in acquisitions this year with another \$1 billion that we expect to close in Q1 given required regulatory approvals.

With that, let me turn to some of the details. New bookings were \$17 billion for the quarter with an overall book-to-bill of 1.0. Consulting bookings were \$9.1 billion, with a book-to-bill of 1.0. Outsourcing bookings were 7.8 billion with a book-to-bill of 1.1.

We were very pleased with our bookings this quarter, which represent our second highest ever, and were aligned to our expectations. Our bookings reflect 15% growth in local currency and 18 clients with bookings over 100 million. Looking forward, we continue to have a strong pipeline.

Turning now to revenues. Revenues for the quarter were \$16.2 billion, a 22% increase in US dollars and 27% local currency, reflecting a foreign exchange headwind of 5% compared to the 4% headwind provided in our business outlook last quarter. Adjusting for the actual foreign exchange impact, we were \$160 million above our guided range. Consulting revenues for the quarter were \$9 billion, up 24% in US dollars and 30% in local currency. Outsourcing revenues were \$7.1 billion, up 19% in US dollars and 23% local currency.

Taking a closer look at our service dimensions, Strategy & Consulting and Technology Services both grew very strong double digits and Operations grew strong double digits.

Turning to our geographic markets - In North America, revenue growth was 23% in local currency driven by double digit growth in Consumer Goods, Retail and Travel Services, Public Service, Software & Platforms, and Communications & Media.

In Europe, revenues grew 30% in local currency, led by double digit growth in Industrial, Consumer Goods, Retail & Travel Services, and Banking & Capital Markets. Looking closer at the countries, Europe was driven by double digit growth in Germany, the UK, France and Italy.

In Growth Markets, we delivered 30% revenue growth in local currency driven by double digit growth in Consumer Goods, Retail & Travel services, Banking & Capital markets, and Public Service. From a country perspective, Growth Markets was led by double digit growth in Japan and Australia.

Moving down the income statement. Gross margin for the quarter was 32.9%, compared with 33.2% for the same period last year. Sales and marketing expense for the quarter was 10.3%, compared with 10.6% for the third quarter last year. General & Administrative expense was 6.5% compared to 6.6% for the same quarter last year.

Operating income was \$2.6 billion in the third quarter, reflecting a 16.1% operating margin, up 10 basis points compared with Q3 last year. Our effective tax rate for the quarter was 27.1%, compared with an effective tax rate of 25% for the third quarter of last year.

Diluted earnings per share were \$2.79, including a \$0.15 or 6% negative impact related to the disposition of our business in Russia, compared with diluted EPS of \$2.40 in the third quarter last year. Days Services Outstanding were 44 days compared to 41 days last quarter. and 36 days in the third quarter of last year. Free cash flow for the quarter was \$2.9 billion, resulting from cash generated by operating activities of \$3.1 billion, net of property and equipment additions of \$195 million. Our cash balance at May 31st was \$6.7 billion, compared with \$8.2 billion at August 31st.

With regards to our ongoing objective to return cash to shareholders - In the third quarter, we repurchased or redeemed 3.1 million shares for \$972 million at an average price of \$313.43 per share. As of May 31st, we had approximately \$3.7 billion of share repurchase authority remaining. Also in May, we paid a quarterly cash dividend of \$0.97 per share for a total of \$614 million. This represents a 10% increase over last year, and our Board of Directors declared a quarterly cash dividend of \$0.97 per share to be paid on August 15th, a 10% increase over last year.

Finally, turning to the 360° value we are creating for all our stakeholders, we were very pleased to be ranked number 13 on 3BL Media's 100 Best Corporate Citizens in the United States report, which recognizes outstanding ESG transparency and performance against the Russell 1000, which are the largest companies in the US equity market. For more information on the 360° values we are creating, go to the Accenture 360° Value Reporting Experience, which reflects new information each quarter.

So, in summary, we are extremely pleased with our results to date and are now very focused on Q4 and closing out another very strong year. Now, let me turn it back to Julie.

Julie Sweet:

Thank you, KC.

As we shared at our recent Investor and Analyst Day, we believe there are five forces that our clients must harness over the next decade and that, in turn, will drive our growth.

Total Enterprise Reinvention, Talent, Sustainability, the Metaverse Continuum, and the Ongoing Tech Revolution. Today, we continue to see strong demand across our markets, services and industries, which is being driven primarily by two of these five forces. Total enterprise reinvention, which involves transformation of every part of every business, leveraging technology with new ways of working and engaging with customers and employees, and new opportunities for growth -- and talent, which requires every business to be able to access talent, be a talent creator, not just a talent consumer, and to unlock the potential of their people.

Compressed transformation continues with our clients seeking to execute bold programs in accelerated time frames, often spanning multiple parts of the enterprise at the same time, when in the past, they may have taken a more sequential approach. This desire for speed with strong execution is driving our growth as clients partner with us because of the breadth and depth of our capabilities, the insights that come from our scale, global footprint, and our deep functional industry and cross industry expertise. And they partner with us because they trust us and because we are trusted partners with the technology ecosystem, which are also critical to our clients' transformations.

While the current macroeconomic environment affects industries and markets differently, the common theme across our clients is that all strategies, whether for growth, cost or resilience, lead to technology, particularly cloud data and AI. And our clients turn to us to be able to effectively use technology to achieve their goals.

Let me bring this demand environment to life. We help our clients execute total enterprise reinvention by helping them build their digital core, optimize operations, and accelerate growth. Cloud, data and AI are fundamental to a strong digital core. We are working with the Clorox Company, a leading multinational manufacturer and marketer of home care, household

and health and beauty products for consumers, as well as products and technologies for professional customers. The company is undertaking a broad digital transformation that will touch every aspect of the enterprise. We will help the company modernize business processes, streamline their operating model, leverage advanced data and analytic insights, and establish a future ready technology foundation to deliver new levels of customer and consumer experiences, accelerate go-to-market activities and enable a more agile and resilient supply chain so they can lead and shape the consumer goods industry.

We are helping New Look, a global fashion retailer, migrate its existing e-commerce platform to the cloud and strengthen its technology foundation to enable a seamless experience across stores, online, mobile and social media. AI and machine learning will create greater efficiency, increase sales and provide the flexibility to scale for growth and overcome industry disruption. The company is committed to infusing sustainability into their transformation roadmap, using innovation as an accelerator toward their own 2040 sustainability targets, all of which promises to keep the company in step with the store of the future, the speed of the fashion industry and the demands of their stakeholders.

And as we build the digital cores of our clients, security is more important than ever. Our integrated capabilities from identity to threat intelligence to managed security services to incident response are critical as our clients respond to increasing risk and expand their digital footprint.

We are helping a large health care services provider assess their cybersecurity and business resilience levels with much of their growth coming through mergers and acquisitions. Technology and security have become more challenging to manage with multiple security providers, data centers and environments. We helped design a cloud strategy and secure their backups in the cloud with an end-to-end cybersecurity approach that will provide flexibility as they continue to acquire more companies. We are also providing a managed security service from cyber resilience to threat intelligence, to monitor their infrastructure and their security products, improving their ability to protect against future attacks.

Our clients value our unique combination of capabilities from strategy and consulting to technology to managed services because it enables us to deliver holistic solutions and expands their access to digital talent. We are helping Infroneer Holdings, a Japan-based infrastructure construction services company, digitally transform operations in Finance and HR through a data driven approach. Through our managed services capabilities and our SynOps platform, we will help the company shift to intelligent operations by standardizing and automating key business processes, driving efficiency and productivity, reducing operating costs, and providing greater opportunity for their people to focus on high value and strategic growth areas such as business design and digital experience.

Shifting to the next digital frontier in the enterprise, our Industry X capabilities are digitizing engineering and manufacturing to reimagine the products our clients make and how they make them, and to build a greater resiliency, productivity and sustainability. We are partnering with a German multinational corporate manufacturer of luxury vehicles to develop an in-car software platform that will power the central intelligence unit for personalized driver interaction information, convenience functions and entertainment. The platform provides a continuous flow of customer data to the automaker, enabling it to enhance vehicle functionality and create the superior customer experience the automaker is renowned for.

We are helping Albras, the largest producer of primary aluminum in Brazil, to increase its productivity, energy efficiency and minimize greenhouse gas emissions by creating a new smelter control system operated over a new IoT architecture that utilizes cloud platforms for

data storage and machine learning.

Data insights will enable better visibility of gas emissions around the clock, allowing operations to be proactively managed, leading to increased energy efficiency and operational safety, as well as additional sustainability strategies to reduce their carbon footprint.

Sustainability, one of the five forces shaping the next decade, continues to be a growing priority area for our clients, and they value our ability to help them achieve their sustainability goals as part of their larger transformations such as the Albras example and directly as part of sustainability focused engagements such as the work we are doing for Pos Malaysia Berhad, the national operator running Malaysia's largest post and parcel delivery network. We are helping Pos Malaysia Berhad to embrace a data driven approach to reducing emissions, cutting waste and upgrading its employees' digital skills. Best in class solutions for environmental, social and governance benchmarking plus a sustainability implementation roadmap and a Skills for the Future program will lead to dramatic reductions in direct waste and scope one and two carbon emissions, along with rapid progress on workforce upskilling.

We continue to build our capabilities in this area, both organically and inorganically. We are pleased that this quarter we announced three new sustainability acquisitions. Greenfish, Ackzente and Avieco, extending our reach and enhancing our ability to deliver deep skills and expertise to clients in ESG measurement and non-financial reporting, net-zero strategy and regulation and real time data analytics.

Our unmatched ability to access, create and unlock talent is valued by our clients as a key component of their compressed transformations such as Pos Malaysia Berhad. In other cases, we help provide our clients access to talent through our managed services, and we help them become talent creators by having their shared services groups join Accenture, where they can benefit from our ability to transform, upskill and provide new career pathways.

For example, we are working with BNL, a leading Italian banking group and subsidiary of BNP Paribas, on a compressed transformation, just 18 months from start to finish, that will leverage our SynOps platform, maximize our client's existing talent, and reduce total cost of ownership. We will consolidate data to provide deeper analytic insights and a better customer experience with tailored services and faster fulfilment times for customer requests. As part of this transformation, more than 500 people from their team will move to Accenture, where we will leverage their industry specific skills while also providing opportunities for professional development, enabling BNL to focus on strategic growth and benefit from this upskilling.

We also do work with our clients that is primarily focused on their talent agenda. For example, we're collaborating with a large utility who is creating thousands of clean energy jobs in areas like renewable electricity generation, energy saving homes and buildings and sustainable transportation. They're doing so for unemployed, underemployed and low-to-middle income residents. We are developing a recruitment, employment and tracking platform that matches people's skills with available positions, leveraging AI and market insights. This solution reduces hiring time, improves the candidate experience, and unlocks talent potential to create jobs for the underrepresented residents who need the most.

We are uniquely positioned to help our clients drive cost efficiencies and their growth agenda. As you may have seen, Accenture Interactive will now go to market as Accenture Song to reflect the fundamental change in the way companies must engage with customers and the incredible speed at which they need to operate and innovate. Song is uniquely operating at the intersection of creativity, technology and intelligence to help our clients reinvent connections and meaningful experiences, including sales, commerce, marketing, new

business platforms and the metaverse continuum.

We are helping a North American multi-brand retailer scale their digital business and accelerate growth while reducing operational costs up to \$100 million over the next five years. Together, we are designing and implementing a new multi-product platform to improve the customer experience and enable the use of data and insights to drive increased engagement and better business performance overall.

While still very early, we are seeing our clients look to take advantage of the metaverse, another of the five forces. For example, we are collaborating with an international property developer, MQDC, to develop their business model and design their customer experience in the metaverse. As you can tell, this continues to be an exciting time for Accenture as the depth and breadth of our business allows us to help our clients with innovative and impactful work.

Back to you, KC.

KC McClure

Thanks, Julie.

Turning to our business outlook for the fourth quarter of fiscal 2022, we expect revenues to be in the range of \$15 to \$15.5 billion. This assumes the FX impact will be about negative 8% compared to the fourth quarter of fiscal 2021 and reflects an estimated 20% to 24% growth in local currency. For the full fiscal year 2022, based on how the rates have been trending over the last few weeks, we now expect the impact on our results in US dollars will be approximately negative 4.5% compared to fiscal 2021. For the full fiscal 2022, we now expect our revenue to be in the range of 25.5% to 26.5% growth in local currency over fiscal 2021, which continues to assume an inorganic contribution of roughly 5%.

For operating margin, we continue to expect fiscal year 2022 to be 15.2%, a ten basis point expansion over fiscal 2021 results. We now expect our annual effective tax rate to be in the range of 23.5 to 24.5%. This compares to an adjusted, effective tax rate of 23.1% in fiscal 2021.

For earnings per share, we now expect our full-year diluted EPS for fiscal 2022 to be in the range of \$10.61 to \$10.70 or 21% to 22% growth over adjusted fiscal 2021 results. This guidance range reflects a negative \$0.14 impact from the updated guidance, partially offset by the increase in revenue guidance. For the full fiscal 2022, we continue to expect operating cash flow to be in the range of \$8.7 to \$9.2 billion. Property and equipment additions to be approximately \$700 million, and free cash flow to be in the range of \$8.0 billion to \$8.5 billion. Our free cash flow guidance continues to reflect a very strong free cash flow to net income ratio of 1.1 to 1.2.

Finally, we continue to expect to return at least \$6.5 billion through dividends and share repurchases as we remain committed to returning a substantial portion of our cash to shareholders.

With that, let's open it up so 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 the question. Operator, would you provide instructions for those on the call?

Operator

Certainly. Ladies and gentlemen, once again, if you would like to ask a question, please press one, then zero on your telephone keypad. One moment, please, for the first question. And our first question is from Tien-Tsin Huang. Please go ahead.

Tien-Tsin Huang

Thank you so much. Good morning. Really good results here. I want to ask on the - let me ask on bookings which came in line with your expectations. In the book-to-bill in the quarter, looks like more like pre-pandemic levels on tough comps. So, KC I heard the strong pipeline comment. Just wondering, can we expect book-to-bill above 1.0 but maybe below the 1.1 or higher that we saw during the pandemic? Just trying to better understand how the pace of bookings might be changing here beyond the comps.

KC McClure

Yeah. Thanks Tien-Tsin. So let me just start with anchoring to what we saw this quarter in bookings and our pipeline, and I'll talk then a little bit about what we expect for Q4. So, as you as you mentioned, we were really pleased with our book to bill this quarter. And you talked about our tough comps. We did 30% growth in consulting, and we have year-to-date a 1.1 book-to-bill in consulting through Q3. We're very pleased with that. And outsourcing, we did 23% revenue growth again over tough comps from last year in the quarter and we have 1.2 year to date book-to-bill. So, as we look ahead to Q4, we do see continued very strong revenue growth at 20% to 24%. So, you heard that in our guidance. And we do think bookings and outsourcing - bookings for both should be - excuse me revenue for both consulting and outsourcing are both going to be in that range. So, we have another strong quarter in consulting and outsourcing revenue growth. And on top of that Tien-Tsin, we do see another strong bookings quarter in Q4 and we feel good about both our consulting and our outsourcing pipeline. So hopefully that gave you enough color on where we see bookings in the rest of the year playing out.

Tien-Tsin Huang

Got it. So, balanced across the two, which is great. So maybe my quick follow up, everyone's been asking us, so I thought I'd ask you guys, Julie, specifically here maybe for you. Just how recession ready is Accenture, right, with what the stock market is telling us? How is Accenture different or maybe similarly positioned to what we've seen in past down cycles? Any quick comments on that? Thank you.

Julie Sweet

Sure. Thanks, Tien-Tsin. So, we don't predict the macroeconomics. So, what we do is really focus on what has helped us be successful. And obviously every financial situation is going to be different. The pandemic, we don't know how this is going to be versus what was happening a decade ago. And so let me just focus on why we are in a strong position. And that is, first of all, what's driving today is total enterprise reinvention. And so that means companies are trying to transform using tech, data and AI around the enterprise. And we've been investing for a decade to be in the position that we're relevant to the enterprise. And so, we can do everything, as you saw in our examples from HR and finance to manufacturing, right, to in the insurance industry - underwriting and claims. And it's really the entire enterprise that we're relevant to and that will give us a huge power to help our clients. And you see, that's

happening right now. With the inflationary environment, you've got consumer goods companies focused very much on costs as well as growth, and we're able to help them do both, right?

And on the other hand, you've got, say, the energy companies that have had a really rough cycle who now have the ability to invest more, continuing on their cost discipline, but trying to also drive their transition to clean energy, right, and to advance their digitization. And so, our diversity in both what we can do and our diversity in industries is extraordinarily helpful. And then as you think about why we're a leader today, I just want to make sure people understand the power of the fact that we can do everything from strategy to consulting to managed services. So, if you just take a consumer goods company, one of the biggest areas of spend is in marketing. We have amazing strategists at Accenture. It's a huge group. It's really, really relevant. And what they bring is not simply here, let's go after your marketing spend, that looks like the biggest spend. What they can say is, and let me explain to you that the trend is to digitize, to use hubs, to not be as geographic specific. And let me show you where we've actually executed that and are managing that service for some of the leading companies.

That's what our strategists can uniquely bring. And we can talk to our clients and say, we can either help you build the capability, or we can do it on your behalf because we can access the talent. We can move you more quickly. And so, as we think about why are we strong today and how do we deliver on our enduring shareholder value proposition of growing faster than the market, delivering margin expansion, returning to shareholders and delivering 360° value. It's really based on this unique set of capabilities, these very strong, trusted relationships. And then, of course, all of this underpinned by technology where we're a powerhouse and we are the leading partner of the largest technology companies in the world.

Tien-Tsin Huang

That's great. Thank you for your comments.

Angie Park

Thanks. Operator, next question.

Operator

I apologize. I was talking with my mute on. We will next go to the line of Lisa Ellis with MoffettNathanson. Please go ahead.

Lisa Ellis

Hi. Good morning. Thanks for taking my question. I guess I'll take the attrition one. It looks like attrition, after coming down a bit the last couple of quarters re-upticked a bit this quarter. Can you just talk about perhaps any color there or any underlying dynamics? And how is the attrition environment looking going forward? Thank you.

Julie Sweet

Yeah, sure, Lisa. We usually see an uptick in attrition from Q2 to Q3. We actually also see seasonally another uptick in Q4, which we will expect to see. So, this is kind of in-line with prior patterns. And again, it's primarily driven by India at the lower end of our pyramid, which is highly competitive. At the same time, we're able to hire for the demand we see. And so, and also as we've commented before, our overall executive retention, which is the people who are driving our business every day, continues to be high. So not a lot of change. And these are really seasonal upticks.

Lisa Ellis

Okay. Got it. Maybe a follow up on that. And then also on Tien-Tsin's question related to the R word, the recession word. What are the types of steps? Can you just remind us if you do start to see a slowdown in the business, kind of what are the adjustments that Accenture makes or can make quite quickly to react to a changing demand environment, realizing that you're often at the front end of the spear on that, given your strength in consulting and a lot of shorter duration projects.

Julie Sweet

Sure. I mean, the core of our business is how we manage supply and demand. Right? And so, we're -- our ability to -- we do have high attrition, right? So our ability to not, for example -- when I say high attrition, meaning our industry has high attrition. So, our ability to not hire to replace that attrition, right? So, our core competency is managing supply and demand and we have an ear to the ground with our clients, but we also have a lot of analytics around what we're seeing in open demand, what we're seeing in our pipeline. So, we manage our business with great rigor and discipline and will continue to do that throughout the cycle. And of course, I just want to make sure we're not walking past an incredible quarter from a revenue and the bookings. And as KC said, we see continued strong demand going into the next quarter with another strong bookings quarter and another strong revenue quarter.

Lisa Ellis

Yes. Got it. Terrific. Thank you.

Operator

And next, we go to the line of Jason Kupferberg with Bank of America. Please go ahead.

Jason Kupferberg

Good morning, guys. Just wanted to start with a clarification on the full year EPS guidance. It sounds like you're now absorbing an extra \$0.29 of headwind relative to where you were last quarter, with the \$0.15 from exiting Russia and the \$0.14 from incremental FX headwind. Is that accurate?

KC McClure

So Jason, that is accurate in that the \$0.15 for Russia, that's absolutely accurate. And then we have an additional \$0.14 from the updated FX -- from the guidance that we gave you last quarter that we are absorbing. So, you are correct.

Jason Kupferberg

Right. Right. So, you're still maintaining the lower half of the EPS guidance from last quarter despite absorbing an extra \$0.29? Okay. I just wanted to make sure.

KC McClure

That's right. I mean, I think the key thing that you're asking and the key point I want to make sure that we're getting across is that there's no change to our business fundamentals and our business performance. We actually had a bit of an increase in our revenue guidance, which helps us partially offset the \$.014 drag that we have from FX. So really strong, we continue to see really strong business operations. We just can't absorb completely all of that large FX movement that we saw from last quarter to this quarter. That's all.

Jason Kupferberg

Of course. Of course. And I guess it's encouraging to hear that there doesn't seem to really be much change at all in the demand environment. Obviously, there's been a lot of worry and wonder about that. But can you maybe just talk to us about nuances of how client conversations have been evolving over the past three months? Any change in client decision

making patterns or are clients doing more recession preparation on their end?

Julie Sweet

Sure. So first of all, as always, we call it like we see it. So today, we see strong demand and we're not seeing a change in decision making. What we are seeing is a shift depending on the industry and the market, on what clients are asking for. So, for example, in the industries like a consumer goods industry, you're seeing a lot more focus on costs than a year ago. Right? With CEOs saying, actually, you know how I always used to talk to you about growth? Can we talk about growth and cost? Right? You're seeing more investment going into - help me do more with less. And at the core of that is cloud, data, AI. You also see a big focus on can we go faster? And I was just meeting with a CEO last week who said, Julie, can you just look at our strategy, and are we being transformational enough? Are we challenging ourselves to go fast enough?

And this is where the experience that we have of doing this, particularly over the last two years where we saw this compressed transformation, is so important. I was just speaking with an energy company last week where they, like a lot of companies early on when digital transformation started, say, five, six years ago in the front office, they've been doing a bunch of experiments of digital twins. And they're saying to us, okay, Julie, help us understand where are we going to get the most value, but how do we scale? And that's that unique combination we have of like, we can understand from a strategic perspective where is the biggest value. But I can then say let me take you to this company over here - different industry that's been doing digital twins that we've just been massively scaling over the 18 months. Let's share with you the lessons learned on how to do that, because it is the next digital frontier, there isn't as much experience and now we'll help you go faster.

So, the context is different depending on the industry. I think every CEO is of course focused on the macroeconomic, and people like to use that as a catalyst for doing some of the harder things around cutting costs. And what we do as Accenture, because we can help on all aspects of that. We also can embed in a growth conversation. You saw the example we used of the big retailer in earnings, where we're helping them grow and we're taking out \$100 million in cost at the same time. Right? And that's what makes us so unique. And that's why we will just continue to stay very focused and we're doing a lot in supply chain - - those conversations accelerated in Europe for obvious reasons. But it's a global phenomenon and we're doing a ton there. And of course, as we think about our business, when we look at the demand, we also look at do we need to upskill any place because we're seeing more demand, say, in supply chain or more demand in a particular industry? And that's where the agility of our learning is. You may recall in the first [15] [corrected] months after the pandemic, we upskilled 100,000 people to shift to cloud and collaboration technology. So that's how we stayed very close. And then we use these other tools we have, like our ability to upskill to make sure that we are responding to what our clients need.

Jason Kupferberg

Great color. Thanks for the comments.

Operator

And our next question is from Ashwin Shirvaikar. Please go ahead.

Ashwin Shirvaikar

Thank you. Good quarter, folks. Demand trends still seem strong. I appreciate the qualitative remark on the revenue focus versus cost focus. We already saw a tick down here in the percent of revenues from consulting as well. I guess the question is around whether you believe that consulting, outsourcing balance might maybe get back down to 50/50 if you

anticipate an air pocket down the road because outsourcing work just tends to have longer ramps. Could you kind of talk through that?

KC McClure

Yeah, sure, Ashwin, happy too. And so just in terms of, I'll start with the last part first in terms of just our mix, right? And I'm not going to guide anything into next year, but if you just look historically at our mix, it can move around 1 or 2% between consulting and outsourcing. But it's generally been, as you know, for years in the zone of about 55% consulting and about 45% outsourcing. So we're seeing the same this year. So that's the first point. And then in terms of consulting, we are really pleased with our performance to date. And as you know, when we gave you - I gave guidance for consulting for Q4. But just a reminder that our book-to-bill is really strong for the year in consulting and anything as you know, over 1 or around 1 book-to-bill in consulting we consider strong. And we also look at it over a trailing four quarters. Right? So, but we'll give guidance for you in September for next year. And that's where we can give you some sense of what the outsourcing is. Consulting type of work will be next year. But you can look at our patterns and see it's about 55/45.

Ashwin Shirvaikar

Got it. Thank you for that. And I guess the follow up is on M&A. I think you might have mentioned in the past quarter that your M&A spend target this year was closer to \$4 billion. It looks like you might not get there. Any color around where valuations easing, what's going on with regards to sort of the strategic approach to M&A, are you now looking, is that also changing given the revenue versus cost focus or is that just a longer-term view? Thoughts around that would be great.

KC McClure

Yeah. I'll let Julie talk about the strategy. But just to recap what I did say, you're right. We had previously said we thought it would be about \$4 billion. We now think it's going to - we've done \$2.2 billion to date, 27 transactions year-to-date. We now think it will be about \$2.5 billion. And that's because there's about a \$1 billion, Ashwin, that is going to go into next year because of required regulatory approvals. So that really is the biggest difference between the \$2.5 billion and the \$4 billion that we talked about.

Julie Sweet

Yeah. And from a strategic point of view, we continue to believe that the merger and acquisition, V&A as we call it, is critical to the way we grow. And there's three big reasons. The first is we will do it for scale. So, you saw us do a lot of cloud acquisitions, for example, because we wanted to capture the momentum in the market and to build scale and areas, in countries, like we did a big one in France, for example, where we didn't have the scale and we had a lot of market momentum. The second reason we do it is to move into adjacencies. So, you saw us build Accenture Song - Interactive - over years. We've used that very effectively with Industry X. So, you saw that big acquisition last year, for example, and that continues and you're starting to see that now in sustainability. We just announced three acquisitions, so where we're really going into new areas with new skills and capabilities. And then third, we're always looking to continue to add in our industry and functional expertise. And that strategy has served us well and we continue to believe that that's an important part of our growth going forward.

Ashwin Shirvaikar

Thank you. Keep up the good work.

Operator

Thank you. Our next question is from Bryan Keane with Deutsche Bank. Please go ahead.

Bryan Keane

Hi guys. Good morning and congrats on the results. I wanted to specifically ask about Europe - continues to show robust growth - 30% growth and I think KC called out Germany, France, UK, Italy. So, lots of concern about the unfortunate situation and war in Ukraine. Is there anything that you guys are seeing that could be in the go-forward impacting Europe? Because right now we're not seeing any weakness in those results.

Julie Sweet

Yes, we're not seeing any weakness in those results. And so, we continue to really stay close to our clients there. There's, as I talked a little bit about earlier, there's a shift in focus in many of the more impacted industries and across the board around things like energy efficiency. So, our strength in, for example, manufacturing and sustainability is helping us drive conversations and helping our clients get more energy efficient for obvious reasons, given the background in Europe, supply chain. Lots going on in supply chain. As you think about what we're doing there, we're doing everything from helping them have greater insights. So, we're working with a food retailer, for example, to understand how they can anticipate disruptions better and earlier using data and analytics.

So, supply chain is a big topic, and then cost because everyone's anticipating at least a continuation of the inflationary environment that we're seeing globally. And so cost becomes a big focus. So, it's today, again, all roads lead to not just technology, data and AI, but how do you use it to transform the business, which is our sweet spot, right? That is what we do. We partner with the technology companies and our clients to help them use these technologies to get results, and that's what we're doing today. And that's the environment that we're seeing our clients need.

Bryan Keane

Got it. No, that's helpful. And then maybe just as a quick follow up. KC, any thoughts on the latest on pricing and Accenture's ability to maintain or even get pricing increases in some different areas where the demand is strongest? Thanks so much and congrats again.

KC McClure

Thanks. Yes. So, we were pleased that we did see, again, improvement, Bryan, in our pricing. And again, reminder that pricing, when we talk about pricing, it's the margin on the work that we've sold. And we really need to continue to focus on that, which is what we are doing to offset what we're continuing to see in wage inflation in our business, which as we all know, is in all industries. It really is across the globe. So, and we are seeing some improvement coming from pricing in our PL. And I also am pleased with that. And at the same time, as you would expect, we're changing the mix of people on our contracts and also using technology to help offset the impact of wage increases. So again, very focused on pricing. That's the biggest lever that we have. But all of these improvements together are still lagging the compensation increases, but we're still very, very focused on it.

Bryan Keane

Thank you. Great.

Operator

And our next question is from Bryan Bergin with Cowen. Please go ahead.

Bryan Bergin

Hi. Good morning. Thank you. Follow through on bookings. Any changes in bookings profiles as it relates to contract duration? And are you seeing any uptick in any interest of clients, to

sell captive operations here? I'm curious if that type of transaction is picked up.

KC McClure

There really is no change at all in terms of the profile of our bookings as it relates to duration.

Julie Sweet

And I'd say on the captive side, it's been more steady, . I don't think I'd say ticked up or not ticked up. It's been steady for the last couple of years.

Bryan Bergin

Okay. And then just a question on Accenture Song. Can you talk about some of the operational changes that have been reported in that business as it relates to the consolidation of agency brands and what that does for you?

Julie Sweet

I think a couple of things I'd start with. The rebranding is really more around reflecting what we're doing today - Accenture Interactive and that brand was kind of old because it started a decade ago, right, where it doesn't really reflect kind of, particularly post-pandemic, which is really a complete use of technology, bringing in creative, using data and AI and moving very, very fast. So, this is where you've got examples like we've given in the past of a Jaguar, Land Rover where they're using managed services to personalize experiences and they're moving very, very quickly. And so, Song just really captures better what, in fact, what we are doing there. And from an operational perspective, it's just a natural evolution to bring together some of the brands that we've acquired over the years. As you know, we built Accenture Song through a very deliberate M&A strategy, and so I think of it more of just kind of the natural evolution.

Angie Park

Great. Operator, we have time for one more question and then Julie will wrap up the call.

Operator

Very good. That will come from James Faucette with Morgan Stanley. Please go ahead.

James Faucette

Great. Thank you very much. And thanks for all the details this morning. I wanted to ask a couple of more nuanced questions around Accenture's operations right now. And first, starting with the bench. How would you characterize your bench right now? Are there pockets of resources that are underutilized versus over utilized? and how much of an operational impact could that be having right now, if any?

KC McClure

So, James, thanks for the question. I will just maybe just focus on the key metrics that we look at and we report every quarter as it talks about our people and the usage of our people and clients. We're at 91%, which is really in the zone of utilization that we like to be in. We're running a little bit hot throughout the past year and a half, since the pandemic, and we're at 91, so that's a very healthy range that we're good with.

James Faucette

Got it. And then a lot of the conversation this morning obviously is focused on macro and demand, et cetera, but are there any industry groups and or service dimensions that you're expecting to accelerate versus decelerate, especially as the customers seem to be at least modifying a little bit the conversations they're having to focus a little more on cost versus growth, et cetera. Are there key parts of those different industries and segments that could

see changes as a result?

KC McClure

Maybe I'll just anchor to what we saw this quarter and I can give it to Julie to give a little bit of color on that. But we did see all 13 industries this quarter have double digit revenue growth. Right? And when we talked about bookings, we had strength across all of our markets, services and industry.

Julie Sweet

Yeah. And I would just add that I remember an industry isn't a monolith. Right? So, coming out of the pandemic and almost every industry, you had some percentage, we've talked about this, who went really fast. Now you've got others who are saying, wait a minute, we're seeing the impact of some of the leaders move faster in their digital transformations. And so, for example, those who moved early to the cloud, we're now talking about the next phase of how do you utilize the cloud to drive new things. Remember, our little formula - cloud is the foundation, data is the driver, and AI is the differentiator. And so, if you've moved to the cloud, now you're using the data in that differently, right? As opposed to those who still need to move to the cloud. We are very early in the transition and so the way we think about it is if you have a total enterprise, we walk our clients through what's the digital core you need to have, where are you on the maturity scale and how do you prioritize?

And so, while we look at the industries as growing double digits, what's actually happening within the industry really depends on where you are on the maturity curve. And that's what drives our business, right? Because we can help the clients who are leaders go to the next level and we're helping the ones that are behind try to leapfrog. And so, I think it's important to look at it in that sense, is that you need to have granular, deep understanding of the industries and help our clients. We help our clients with that to know where to go next.

CONCLUSION

Julie Sweet

Great. Thanks, James. All right. In closing, we really appreciate everyone for joining us today. And thank you again to all of our people and our leaders for another outstanding quarter in every dimension, from our financial results to our 360° value beyond our financials. And thank you to all of our shareholders for your continued trust and support. We'll work hard every day to continue to earn it. All the best.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.