

# Accenture

## Fourth Quarter Fiscal 2022 Financial Results

### Conference Call Transcript

Thursday, September 22, 2022 / 8:00  
a.m. Eastern

#### **CORPORATE PARTICIPANTS**

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**Julie Sweet** – *Chair and Chief Executive Officer*

**KC McClure** – *Chief Financial Officer*

**Angie Park**

Thank you, operator, and thanks, everyone, for joining us today on our fourth quarter and full fiscal 2022 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 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 both the fourth quarter and full fiscal year. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the first quarter and full fiscal year 2023. 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 everyone joining us today. And thank you to our 721,000 people around the globe for delivering a truly extraordinary year. We measure our success by both our financial results and the broader 360-degree value we create for all our stakeholders, our clients, people, shareholders, partners and communities. Strong financial results allow us to deliver more 360-degree value.

Let me share a few highlights of this extraordinary year. In FY '22, we delivered record bookings of \$72 billion. As our clients continue to execute compressed transformations, we had 100 clients with quarterly bookings greater than \$100 million compared to 72 last fiscal year. We delivered revenues of \$62 billion, representing a record 26% growth in local currency, adding \$11 billion in revenue for the year.

We continue to take significant market share growing more than two times the market. Our financial results reflect our commitment to creating value for our clients every day, which is why they are turning to us as their trusted partner across the enterprise. We now have 267 Diamond clients, our largest client relationships, compared to 229 last fiscal year. We expanded operating margin by 10 basis points and had EPS growth of 22% over adjusted FY '21 EPS, demonstrating our ability to grow profitably and at scale.

We achieved this profitable growth while continuing to invest significantly in our business and people with \$3.4 billion deployed across 38 acquisitions that are well balanced across markets, services and strategic priorities; \$1.1 billion invested in R&D assets, platforms and industry solutions, including growing our portfolio of patents and pending patents to more than 8,300; and \$1.1 billion invested in the training and development of our people to grow the skills

needed to serve our clients.

We continue to offer an employee value proposition that includes providing vibrant career paths and opportunities for our people with approximately 157,000 promotions and over 40 million training hours while expanding our workforce by almost 100,000 and achieving 47% women as we continue our progress towards gender parity by 2025.

We believe our unwavering commitment to diversity, broadly defined, and inclusion is an essential element of our ability to deliver market-leading financial results because our diversity and inclusiveness makes us smarter, more innovative and more attractive to top talent. We achieved over 85% renewable electricity powering our offices and centers around the world on our way to 100% by 2023.

We prioritize creating value around the world and the communities where we work and live, both through investments and job creation and through our direct support of meaningful local initiatives, including our apprenticeship programs in the U.S., U.K., Switzerland and Latin America and our growing partnership with Youth Business International, which will help an additional estimated 240,000 young entrepreneurs, ages 18 to 35, build skills and success in a digital future on top of the 370,000 young entrepreneurs already supported through this partnership in many different communities throughout the world.

This year, we are proud to achieve our highest brand value and rank to date on BrandZ's prestigious Top 100 Most Valuable Global Brands list, increasing 28% to over \$82 billion and ranking #26. Over to you, KC.

#### **KC McClure**

Thank you, Julie, and thanks to all of you for joining us on today's call. We were very pleased with our results in the fourth quarter, which completes another outstanding year for Accenture. Once again, our results continue to provide strong validation of our leadership position in the marketplace, the relevance of our services to our clients and our ability to consistently deliver on our shareholder value proposition, including both our financial results and creating 360-degree value for all our stakeholders.

So let me begin by summarizing a few highlights from the quarter across our three financial imperatives. Revenue grew 22.4% in local currency, driven by double-digit growth across all markets, services and industries. We once again extended our leadership position with growth estimated to be more than two times the market, which refers to our basket of publicly traded companies.

Operating margin was 14.7%, an increase of 10 basis points for the quarter. We continue to drive margin expansion while making significant investments in our people and our business. We delivered very strong EPS of \$2.60, which represents 18% growth compared to EPS last year. And finally, we delivered free cash flow of \$3.6 billion, driven by superior DSO management.

Now let me turn to some of the details. New bookings were \$18.4 billion for the quarter, our second highest ever with a book-to-bill of 1.2. Consulting bookings were \$8.4 billion with a book-to-bill of 1. Outsourcing bookings of \$9.9 billion were a record with a book-to-bill of 1.4.

We were very pleased with our strong bookings this quarter, which reflects 22% growth in U.S. dollars and 31% growth in local currency, including 26 clients with bookings over \$100 million in the quarter.

Turning now to revenues. Revenues for the quarter were \$15.4 billion, a 15% increase in U.S. dollars and 22.4% in local currency. Consulting revenues for the quarter were \$8.3 billion, up 14% in U.S. dollars and 22% in local currency. Outsourcing revenues were \$7.1 billion, up 16% in U.S. dollars and 23% in local currency.

Taking a closer look at our service dimensions. Technology services grew very strong double digits, Operations grew strong double digits and Strategy and Consulting grew double digits. Turning to our geographic markets. In North America, revenue growth was 18% in local currency, driven by double-digit growth in Public Service, Software and Platforms and Consumer Goods, Retail and Travel Services.

In Europe, revenues grew 26% in local currency, led by double-digit growth in Industrial, Banking and Capital Markets and Consumer Goods, Retail and Travel Services. Looking closer to the countries, Europe was driven by double-digit growth in Germany, The U.K., Italy and France.

In Growth Markets, we delivered 26% revenue growth in local currency, driven by double-digit growth in Banking and Capital Markets, Consumer Goods, Retail and Travel Services 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 32.1% compared with 33.3% for the same period last year. Sales and marketing expense for the quarter was 10.2% compared with 11.3% for the fourth quarter last year. General and administrative expense was 7.1% compared to 7.4% for the same quarter last year.

Operating income was \$2.3 billion in the fourth quarter, reflecting a 14.7% operating margin, up 10 basis points compared with Q4 last year. Our effective tax rate for the quarter was 24.6% compared with an effective tax rate of 25% for the fourth quarter last year.

Diluted earnings per share were \$2.60 compared with EPS of \$2.20 in the fourth quarter last year. Days service outstanding were 43 days, compared to 44 days last quarter and 38 days in the fourth quarter of last year. Free cash flow for the quarter was \$3.6 billion, resulting from cash generated by operating activities of \$3.8 billion, net of property and equipment additions of \$177 million.

Our cash balance at August 31 was \$7.9 billion compared with \$8.2 billion at August 31 last year. With regards to our ongoing objective to return cash to shareholders. In the fourth quarter, we repurchased or redeemed 2.1 million shares for \$605 million at an average price of \$293.23 per share.

Also in August, we paid our fourth quarterly cash dividend of \$0.97 per share for a total of \$614 million. And our Board of Directors declared a quarterly cash dividend of \$1.12 per share to be paid on November 15<sup>th</sup>, a 15% increase over last year, and approved \$3 billion of additional share repurchase authority.

Now I would like to take a moment to summarize our outstanding year. We were extremely pleased with our performance in fiscal year '22, greatly exceeding almost all aspects of our original outlook that we provided last September. We delivered \$71.7 billion in new bookings, reflecting 21% growth in U.S. dollars, hitting 100 clients with quarterly bookings of \$100 million, which positions us well as we begin FY '23.

We added significant scale with a record \$11 billion in incremental revenue, almost double

what we added in fiscal '21. Revenue of \$61.6 billion for the year reflects growth of 26% in local currency. Operating margin of 15.2% reflects a 10 basis point expansion over FY '21. We were extremely pleased that we were able to deliver within our original guided range, particularly with the continued significant investment in our business and people, including higher wages.

Earnings per share were \$10.71, reflecting 22% growth over adjusted FY '21 EPS, which is our highest growth in over a decade, reinforcing our ability to grow at scale profitably. As a reminder, we adjusted earnings last year to exclude gains on an investment. Free cash flow of \$8.8 billion was significantly above our original guided range, reflecting a very strong free cash flow to net income ratio of 1.3.

And with regards to our ongoing objective to return cash to shareholders, we exceeded our original guidance for capital allocation by returning \$6.6 billion of cash to shareholders while investing approximately \$3.4 billion across 38 acquisitions. In addition to these excellent financial results, let me turn to the 360-degree value we are creating for all our stakeholders.

Through our partnership with Save the Children, we are preparing young people for a more sustainable and inclusive future by skilling an estimated 70,000 people to drive social and environmental change. For more information on the 360-degree value we are creating, please go to the Accenture 360-degree Value Reporting Experience, which reflects new information each quarter.

So again, FY '22 was a truly extraordinary year and we are now focused on delivering in fiscal '23. And now let me turn it back to Julie.

### **Julie Sweet**

Thank you, KC. We succeed by being close to our clients. Understanding and anticipating their needs, helping them from strategy to execution with the best solutions for their businesses, whether for growth, cost optimization or both and resilience. And it all starts with technology.

With the breadth and depth of our existing capabilities, combined with our incredible learning organization, we are able to pivot as necessary, positioning us to serve our clients' changing needs and capture new market opportunities all while being laser-focused on our own operational excellence.

I will give some color on the demand we are seeing. First of all, against the backdrop of the current macroeconomic environment, we delivered \$18.4 billion in new bookings in Q4, a year-over-year increase of 31% in local currency. While industries and markets are being affected differently, there are two common themes: all strategies lead to technology, particularly cloud, data, AI and security, which are fundamental to a strong digital core. Our cloud business is now \$26 billion and grew 48%, with Cloud First being the biggest driver of the growth.

Companies are also seeking to execute compressed transformations, the second theme. These mean bold programs on accelerated time frames often spanning multiple parts of the enterprise at the same time. Managed services have become increasingly strategic as companies seek to move faster and leverage our digital platform and talent, and they are turning to Accenture because of our excellence across the enterprise. We are unmatched in terms of breadth and depth of capabilities and industry coverage.

We continue to see a growing number of companies embrace the need to harness the five key forces of change that we have identified for the next decade: Total enterprise reinvention,

talent, sustainability, the Metaverse continuum and the ongoing tech revolution, which in turn will fuel our growth.

Let me bring this demand to life. First, total enterprise reinvention. We are helping our clients transform every part of their business with technology from building a digital core to optimizing operations to achieve agility, efficiency and resilience to accelerating their growth agendas. While it is still early stages, there are leading companies that have begun systematically transforming multiple parts of their enterprise from moving to the cloud and adopting new ways of working to digitizing manufacturing, to reimagining shared services to creating entirely new business models.

Unilever, one of the world's largest consumer goods companies is an example of a company that is leading in total enterprise reinvention. Together, we are setting a new industry standard by reinventing technology delivery with cutting-edge automation, delivering cloud migration at scale, the largest ERP migration to the cloud in the industry and shifting to technology solutions that support their growth strategy.

They have changed their business model from a matrix structure to being organized around five distinct business groups. Each business group is fully responsible and accountable for their strategy, growth and profit delivery globally. Now we are helping them build a B2B marketplace that will help millions of small retailers in emerging markets grow their business and create what the company calls "shared prosperity".

We helped launch in seven markets in just 12 months, implemented a cloud-native, scalable commerce platform powered by data and advanced analytics. And we are managing front- and back-office operations and campaigns delivered in partnership with the Accenture Song team. Because across our industries, we are as relevant to the boardroom to the CFO to the business unit leader to the GM of the factory, and we understand the connections across the enterprise, we are uniquely positioned to help our clients as they seek to often simultaneously drive growth, efficiency, cost reduction and increased resilience.

For example, we are helping Lupin Limited, a global pharmaceutical company, become an intelligent enterprise by enabling its data-driven transformation journey. A new digital platform will unlock enterprise data to increase efficiencies and decision-makers will now have real-time visibility into integrated data across 100 countries and 15 manufacturing and research facilities. This consolidated view of global business operations and performance will help the company navigate supply chain disruptions and accelerate product innovation and speed to market while supporting the company's mission to provide affordable health care to people around the world.

We see continued demand for our Industry X capabilities, which are all about digitizing engineering and manufacturing -- this is the next digital frontier. Industry X revenues grew 38% in FY '22 to total \$7 billion. We are helping EDF, a French multinational utility company digitize the construction of a nuclear power station that will provide low carbon energy for more than 6 million U.K. homes.

As part of a total enterprise reinvention, our Industry X team transformed EDF's digital construction processes by creating a global digital factory model on a secure cloud infrastructure, driving cost efficiency. Construction methods that used to be paper and blueprint based will be digitized and AI will consolidate parts information from millions of pages of supplier guides.

Digital dashboards will provide real-time data visibility across all systems and digital twins

will help identify areas for automation across power plants, all of which drive safety, efficiency and quality. We are leveraging our expertise of nuclear construction and our cutting-edge cloud, digital and AI capabilities to help EDF deliver on one of the largest capital projects in Europe and accelerate its mission, helping Britain achieve net zero.

And our Operations services, now a \$9 billion business with 19% growth in FY '22 are fundamental to total enterprise reinvention for our clients because they help our clients digitize faster, access digital talent and reduce cost. For example, we are collaborating with one of the world's largest commercial vehicle manufacturers to develop an independent finance operation, leveraging our deep functional expertise in finance and accounting.

With our managed services, we will implement a new platform underpinned by SynOps - automation, data and analytics will drive and provide real-time decisions while digitizing processes to improve efficiency and user experience, all leading to significant cost reductions, better decision-making and savings.

And as our clients build their digital core, security continues to be more important than ever. With over \$6 billion in revenue and 45% growth, our integrated security capabilities from identity to threat intelligence to managed security services to incident response are critical as our clients respond to increasing risk as the security landscape widens.

We are working with an Asian multinational conglomerate to deliver a comprehensive managed security services, security operations center and a holistic security solution to detect, monitor and respond to global security threats 24/7. We will also manage tools to continuously monitor end-user devices to detect and respond to cyber threats, like ransomware and malware and will perform regular threat hunting activities to detect new cyber hacking techniques. This will provide its business units with timely detection and defense against cyber attacks, deliver threat intel for proactive defense, reduce false alarms by 90% and minimize emergency incidents to less than 1% of total incidents.

Moving from total enterprise reinvention to the other five forces. Next, talent. Our clients look to us to help them access, create and unlock the potential of talent. We collaborated with Sky, one of Europe's leading media and entertainment companies to modernize its employee experience and human resources operations in the era of hybrid working.

By migrating to a Software-as-a-Service multi-platform human capital management solution, all in the cloud, employees will be empowered with anytime, anywhere self-service solutions and access to real-time data and dashboards across all markets in one place. The solution supports all people, management functions from recruiting and onboarding to performance management and learning, as well as compensation, benefits and payroll integration.

Employees have the full picture of their work experience at their fingertips helping them to build their careers and perform at even higher levels. Now, sustainability. With \$1 billion in revenues in FY '22, we continue to believe clients will increasingly need our sustainability services in the decade to come.

We collaborated with Swisscom, Switzerland's #1 firm for communications, IT and entertainment, on a climate strategy to reduce the company's emissions and help its customers reduce their emissions by 1 million tons of carbon by 2025 - equal to 2% of Switzerland's total carbon emissions by leveraging technology such as cloud, data, AI, 5G and IoT.

These technologies will address faster and higher capacity data transmission with remote

management and control of connected devices. We are also helping the company explore strategies to incorporate technologies within the emerging Scope 4 classification that can help further reduce carbon emissions from customers, allowing Swisscom to positively impact the planet and provide their customers with a larger number of green products and services to choose from.

Moving to the Metaverse and the ongoing tech revolutions. We continue to invest ahead of our clients' needs and have more than a decade of experience and leadership in metaverse-related capabilities. In fact, we expect to onboard over 150,000 new joiners using Accenture's Nth Floor. And we use our experience and expertise to help our clients as we believe the Metaverse continuum provides greater possibilities in the wave of digital transformation, and it is still early days.

For example, we are helping Tokyu Land Corporation, a Japanese leasing, construction and retail real estate company, leverage the Metaverse to transform the customer experience through digital twin technology, leveraging computer-generated imagery to recreate walk-throughs of its condominiums online to greatly improve its in-person model room tour. Customers will be able to visualize the property online, including different home equipment options, and the company will attract more buyers and increase sales while reducing marketing costs and the environmental impact of the construction, operation and removal of the model room.

Into the future, we will help create continuous touch points with customers throughout the real estate life cycle and develop new collaborative digital businesses such as purchasing furniture and home appliances and ordering renovation services. And with our continued focus on innovation and the ongoing tech revolution, we continue to invest in our business for the future. For example, in Q4, we invested in Pixxel, a leader in cutting-edge earth imaging space technology. Back to you, KC.

### **KC McClure**

Thanks, Julie. Now let me turn to our business outlook. For the first quarter of fiscal '23, we expect revenues to be in the range of \$15.2 billion to \$15.75 billion. This assumes the impact of FX will be approximately negative 8.5% compared to the first quarter of fiscal '22 and reflects an estimated 10% to 14% growth in local currency.

For the full fiscal year '23, based upon how the rates have been trending over the last few weeks, we currently assume the impact of FX on our results in U.S. dollars will be approximately negative 6% compared to fiscal '22. For the full fiscal '23, we expect our revenues to be in the range of 8% to 11% growth in local currency over fiscal '22, which includes an inorganic contribution of about 2.5%.

For operating margin, we expect fiscal year '23 to be 15.3% to 15.5%, a 10 to 30 basis point expansion over fiscal '22 results. We expect our annual effective tax rate to be in the range of 23% to 25%. This compares to an effective tax rate of 24% in fiscal '22. For earnings per share, we expect full year diluted EPS for fiscal '23 to be in the range of \$11.09 to \$11.41 or 4% to 7% growth over fiscal '22 results.

For the full fiscal '23, we expect operating cash flow to be in the range of \$8.5 billion to \$9 billion, property and equipment additions to be approximately \$800 million and free cash flow to be in the range of \$7.7 billion to \$8.2 billion. Our free cash flow guidance reflects a free cash flow to net income ratio of 1.1. Finally, we expect to return at least \$7.1 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 that we can take your questions. Angie?

## QUESTIONS AND ANSWERS

### Angie Park

Thanks, KC. I would ask that you each take 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 Lisa Ellis with MoffettNathanson. Please go ahead.

### Lisa Ellis

Good stuff here. Just a question about the outlook for fiscal '23. Can you elaborate a bit further on what underlying macroeconomic outlook that you have embedded in guidance above and beyond the 6 points of FX translation. And maybe the broader question is sort of how, if at all, are you seeing the rising rate environment, inflation sort of escalating dynamics of what we've been seeing all year long affecting your business?

### KC McClure

Great. Thanks, Lisa. So yes, let me give you a little bit of color around our guidance assumptions. So our revenue range of 8% to 11% for fiscal '23, it includes 2.5% inorganic contribution, and that's compared to about 5% that we did in '22. And that would represent then about 8.5% organic growth at the upper end of our range. And so we continue to see really strong demand for our services, Lisa. And as you've seen, the most recent estimate for IT services continues to show the growth for our industry will be about 5%. So anywhere in our range, it will show us continuing to take share.

But at the same time, while our growth is not directly correlated with GDP, we read the same things that you do. And the latest GDP estimate for most of the world's largest economies are lower in 2023 than 2022. So again, we're calling for double-digit growth at the top part of our range. Another year of double-digit growth, which would have us adding significant scale, yet again on top of our current \$62 billion business.

### Julie Sweet

Maybe I'll add, Lisa, is that -- when we think about the macro environment, what we're really thinking about is what do our clients need, right? So -- and I talked a little bit about this last quarter, this environment affects different industries differently. So you've got those who are really tied to the supply chain disruption and the inflation continuing to focus on cost. But you also see that as the uncertainty increases. So over the last 90 to 120 days, you saw changes in the estimates around the GDP growth for 2023, it makes all clients really think about, okay, what's my resilience? Is there more that I can do? Can I take advantage of the environment to push through deeper cost cuts that require you to change your behaviors?

And so we really think about the environment as what does that mean we need to do to help our clients and how do we continue to pivot. And it's very similar if you think about what we did in the early days of the pandemic, where we've pivoted a lot to, for example, Cloud using all of our learning organization. So that's the focus. So it's always an opportunity to better serve our clients.

**Lisa Ellis**

Okay. Yes. Great color. And then just a quick follow-up on bookings, realizing they're obviously always lumpy to quarter-to-quarter and the overall number this quarter was extraordinarily strong, continuing that 1.12 book-to-bill. But is there any – was it sort of an unusual shift in mix into Outsourcing and less Consulting. Is there any color or call out there? Or is that just sort of the vagaries of the kind of quarterly fluctuations?

**KC McClure**

Sure. And so Lisa, as you mentioned, we feel really good about our bookings in Q4. It was our second highest bookings ever, our highest also being this year in the second quarter. What I really liked about it, it was driven by broad-based demand. So across all markets and all services. And we peel it back. We had good book-to-bill in all dimensions of our business. And with Outsourcing a record of almost \$10 billion, and that was almost \$1.3 billion more than what we did for our last record. And we do continue to see a strong pipeline going into the year, even with those second best record bookings. But I will say that as we often do, we have seasonally lower bookings in quarter one and we are seeing that again this year.

**Operator**

Our next question comes from the line of Tien-Tsin Huang with JPMorgan.

**Tien-Tsin Huang**

Just tacking on what Lisa just asked here with this larger book-to-bill in outsourcing relative to consulting. Is the shift to larger deals, does that tell you or should it tell us anything about client priorities? And I'm curious if that changes or even improves your visibility overall for fiscal '23, given you have so much more in the way of larger deals in the backlog.

**Julie Sweet**

Yes. I mean, obviously, we've got larger deals, you have more visibility around larger deals just because they're larger deals and you see how it is. And certainly, how we think about the business so much. I mean, I think if you just take a – your underlying question is what are clients focused on, right? And so what we do see is – and what we actually – more than just see what we are recommending is that leadership teams remain sort of focused on prioritizing where they can get good time to value, making sure that they are doing things that are material, not having 1,000 different pilots as opposed to actually getting to scale.

And so a lot of that does lead to a focus on larger transformation deals, and it's tied to what we call total enterprise reinvention, right? What we're talking to clients about is systematically reinventing. And actually, we've got some research coming out at the end of September that says 68% of CFOs say they today have either three or more transformation programs either going right now or about to start in parallel. And so what that really does mean then is that you've got more companies do what we've been talking about since the early days of the pandemic, which is systematic transformation. We'll try to do it faster and that does lead to larger programs. And probably the bigger impact for us is less about visibility, but those obviously convert to revenue differently.

**KC McClure**

Yes. And maybe Tien-Tsin, I'll just add in terms of, if you just look at our bookings this year from an Outsourcing type of work compared to Consulting type of work compared to our history over the last few years, there's really no difference, right? We actually have a slight percentage uptick in what we closed out this year in Consulting type of work bookings versus Outsourcing. So there's no real difference in our mix.

### **Tien-Tsin Huang**

Very good. No, that's really helpful. Just on the – my follow-up on margins, if you don't mind. Just thinking about investment priorities, organic versus inorganic. I know it's a lower inorganic assumption on growth this year. But – any update there in terms of the balance? And I'm wondering, I wrote down, I think you said 48% growth in cloud for the year. And I think back to the Cloud First investment you did, I think it was a \$3 billion investment. It seems like you got a good return out of that. So can we see more investments like that at this point in the cycle? So yes, just thinking about organic versus inorganic investing.

### **KC McClure**

Yes. So I'll take the inorganic point, and then I'll hand it over to Julie to give some more color. So first of all, there's no change overall to our capital allocation strategy, right? So we will continue to use V&A to fuel our organic growth. And so you'll see the 2.5%, Tien-Tsin, is an inorganic contribution. It's generally in the zone of what we've done in previous years. And so maybe I'll also just take a chance to talk about what that means in terms of how we're going to invest in our business next year and how that relates to how we're seeing our profit because I think it's really important to point out that we're really proud of what we accomplished this past year in '22, where we did 10 basis points of expansion. And Tien-Tsin, we were continuing to invest at scale in our business, right? And also in our people, particularly this year with managing wage inflation.

So as we look through next year, we expect to continue to invest in our business. We expect wage inflation to continue. It's across all industries and across the globe. And for us, it's going to vary by geography and by skills. And we will navigate that like we did this past year with a focus on pricing, which we all know can lag compensation a bit. But I just want to point out that we did see the benefit of improved pricing in our P&L in '22. And so again, we're going to do all of this while changing the mix of people in our contracts, the use of technology to absorb the higher investments that we're making organically and the higher investments that we're making in our people. But – so it's really important that we continue on our investment profile. And with that, like I'd be really happy next year to land anywhere within the 10 to 30 basis points of op margin expansion. And I would say that based on how we're going to invest throughout the year, there's a bit more potential for us to have more variability in the quarters as we go throughout fiscal year '23 on our way to 10 to 30 basis points of expansion for the year.

### **Julie Sweet**

Yes. And Tien-Tsin, I would just emphasize, we believe it is very important to continue to invest at higher levels in our business every year and that's our commitment. And it's been, we think, a big reason for our success is that through every cycle, we continue to invest.

### **Operator**

Our next question will come from the line of Keith Bachman with BMO.

### **Keith Bachman**

I wanted to ask to start with on the outlook. In particular, Julie, if there's any comments, directional or otherwise, you could give on bookings. I understand you provided the revenue guidance in constant currency, even the backlog runoff of the booking -- tremendous bookings you've given so far, the revenue guidance seems very reasonable, if not a touch conservative. But as you indicated in your prepared remarks, you had record bookings this year. You're facing -- your clients are facing a deeper economic challenge. So is there any comment you could give whether book-to-bill or the growth rates or any parameters on how we should be thinking about bookings this year? Because it seems like the trajectory there could be different from the revenue growth.

**Julie Sweet**

Well, I'll let KC start, and then I'll add on.

**KC McClure**

Yes. So Keith, maybe I'll start with a little bit more color on how we actually see revenue kind of breaking out for the year. So from a type of work perspective for the full year '23, we do see Consulting revenue growth to be within our -- within the context of the 8% to 11% that we gave out overall, which remember has a 6% FX headwind embedded in that. We see Consulting revenue to be high single digits to double digits. And Outsourcing, we see being double digits. And when you think about what our bookings expectations are, while we don't guide to bookings, you should -- our view remains the same. We look for over a rolling four quarters period of time for our book-to-bill to be over 1.

**Julie Sweet**

Great. And Keith, what I would just say is that -- remember, our focus is helping our clients create value within whatever environment that they are operating in, right? So -- and which is very different depending on your industry. So like pick right now, providers in the U.S., right? They are focused on cost cutting because they went through a tough time with COVID, they're behind in digitization, so they're investing there. And they have to because they're facing one of the most difficult labor markets they've ever had, so now, the sort of resistance and difficulty in automating before. That is completely different than a global consumer company like Unilever, we talked about in our script, who's reinventing everything, that's been on this journey for a few years, looking to the next thing, right? And they're dealing with supply chain disruptions, right, cost inputs.

And so that is how we continue to succeed, is by understanding the depth of difference in our industry. We're using knowledge that we had from other industry to now accelerate what the providers are doing, because they're now implementing SaaS solutions to connect their patients that we've been doing for years in retail, right, and in banking and in lots of other industries. So our outlook for the year reflects our confidence that we are going to continue to be able to use that knowledge, stay close to our clients and deliver on what they need.

**Keith Bachman**

Okay. My follow-up is then focused on free cash flow. The free cash flow guidance is a touch certainly lighter than what we had modeled and I think the Street had modeled, your margins continue to move higher. So I was just wondering what puts and takes that you might want to call out with the free cash flow guidance for the year. And then I will cede the floor.

**KC McClure**

Yes. Thanks, Keith. So, as you know, when we set our guidance, we always first start with looking at the ratio. So the ratio that we have in our free cash flow guidance is a very strong 1.1 free cash flow to net income ratio. So we're happy with that. We also are allowing in that guidance a bit of an uptick in DSO from our current level. And then also, we are assuming we are going to have the FX impact of 6%, that will obviously impact our free cash flow as well. And as you know, it's not unusual for us to start guidance at the beginning of the year with a free cash flow guidance range, that's below where we delivered the previous year.

**Operator**

Our next question comes from the line of Bryan Keane with Deutsche Bank.

**Bryan Keane**

Obviously, a lot of folks are asking about the macro. So just curious how the macro has changed for you guys over the last three months. and how that's influenced your business

because it doesn't really show up much in results. So just curious how you would frame that?

**Julie Sweet**

Well, as KC said earlier, our guidance for the year takes into account the current estimates for 2023 for GDP, which, as we all know, over the last sort of 90 days have decreased. So we take that into consideration. And where we see that really affecting our business is our ability to help our clients and think about what to do, right? How do you execute a faster transformation? Are there new opportunities? I'm talking to a consumer goods client now, where we're helping them think about, well, how do we cut marketing and get more effective because they need growth, but marketing is one of the biggest spend areas for a consumer goods company. And by the way, let's not waste a good environment to be able to catalyze cultural and behavioral change as they think about things. So that's where we are seeing it. And otherwise, our guidance reflects -- as you know, it's not a one for one, but we obviously take into account the economic environment.

**Bryan Keane**

Got it. Yes, I was just looking at Europe, in particular, up 26% in local currency, given all the concerns around Europe. It's just a pretty amazing number. It doesn't seem to have come off much from the growth rates you've been putting up.

**Julie Sweet**

Yes. We're very proud of our European team because they are really close to our clients.

**KC McClure**

Yes. And maybe, Bryan, I'll give you a little bit of color on that as it relates to Q1. Let me give you a peel back a little bit on the revenue outlook that we have for the first quarter -- and when we look at the markets, we see all the markets for the first quarter within that 10% to 14% revenue range that we gave. They all have the potential to be double digits, and that includes Europe. And then also for the Consulting type of work in Q1, we see a high single-digit to low double-digit growth range within that 10% to 14%. And I want to peel back Consulting a little bit for you, too. Within Consulting, we see the tech portion of consulting, the systems integration, we'll have continued strong demand and S&C, we expect to be in lower single digits.

**Bryan Keane** No, that's really helpful. And then just a quick follow-up, just thinking on, KC, on visibility. How has visibility changed at all, if at all, for Accenture? When you look out further on in the quarters as we get to Q4, it's obviously almost 12 months away, so it's probably a little bit hard to figure out exactly the right growth rates, but just thinking about the visibility of the business.

**KC McClure**

I would say, Bryan, that in terms of looking at the back half of the year, I mean, that's no different than the way it is, honestly, every year. We talked a lot about what we just mentioned on how we look at the macro in the market. But the back half of the year, we always -- it's always less certain at this time of the year than obviously the first quarter and the first half. Again, it's no different than what we have experienced every year.

**Julie Sweet**

And as always, clients still -- most of our clients are calendar year and they'll set their budgets, and we'll know more about that in January. So it's really the same.

**KC McClure**

It is. It is.

**Bryan Keane**

Got it. Congrats on the results.

**Julie Sweet**

Thanks.

**KC McClure**

Thank you.

**Operator**

Our next question comes from James Faucette with Morgan Stanley.

**James Faucette**

Appreciate all the commentary today as usual. Looking at kind of the supply and kind of how you're managing your own employees, et cetera, how does the shift in client priorities manifest itself in where and how your services are being delivered? And how is that influencing your talent strategy right now around pace of hiring, where you hire, et cetera?

**Julie Sweet**

Well, as you know, our -- we have a very deep competency in supply and demand. And actually, over the course of the last couple of years, we continue to innovate. We have a incredible ,what we call integrated talent control tower, that is able to predict earlier and earlier in our sales cycle, where the skills will be needed and what type of skills. And so for us, this is just normal business, right? And keep in mind, technology demand is really incredible, right? I mean you saw that in our results. All strategies lead to technology. And we're super pleased with not only our performance there, but what we're seeing ahead as clients continue to build the digital core as fundamental to all of their other strategic needs. And our talent supply chain is able to see that, predict it, understand the skills and keep moving forward.

**James Faucette**

That's great. And then turning to pricing, just wondering what the tone and tenor of pricing conversations have been? How those have progressed. And how are you building in or how should we think about what's being built into your formulation of outlook around magnitude of potential uplift to revenue from pricing versus margins, et cetera?

**KC McClure**

So let me just remind you that when I'm talking about pricing in my answer, I'm talking about the margin on the work that we've sold. And I'm really pleased that we've continued to see improvements in pricing. And we are seeing the benefits. I mentioned this earlier, but I'll just repeat it. We are seeing the benefits come through in our P&L. And we continue to focus on improvements in pricing as we enter into fiscal year '23. So I'm really pleased with the progress we've made.

**Operator**

And our next question will come from the line of Jason Kupferberg with Bank of America.

**Jason Kupferberg**

KC, I just wanted to pick up on your comment on one of the prior questions around -- I think you said Strategy and Consulting, up in the low single-digit range in Q1. So, curious if that's

the same kind of range you anticipate for the full year fiscal '23? And is that below corporate average level, just reflective of the more kind of discretionary nature and growth-oriented nature of those services?

**KC McClure**

Yes. Thanks, Jason. In terms of Q1, it's really just a few simple things. One, we got a tough compare. Two, is there's less -- when I mentioned the less inorganic that really does also hit in the S&C part. And then as Julie talked about, a lot of our S&C practitioners are really focused on some -- a lot of the larger transformational deals. And that just has, Jason, a different revenue yield, and it bleeds in later throughout the year.

**Jason Kupferberg**

Okay. Understood. Maybe just turning to the supply side for a second. It looks like attrition was unchanged in Q4 versus Q3. Wondering what you're expecting there in fiscal '23 as well as what you're expecting for wage inflation relative to 2022 and whether or not some of the broader layoffs across other parts of the tech industry, is that taking some of the pressure off some of your supply metrics at all?

**KC McClure**

Yes. So I'll start, Jason, with the last part. I mean we had -- I'm really pleased with the way we were able to grow at scale profitably while managing the wage inflation in FY '22. And as we said a little bit earlier, but just to repeat, we do expect wage inflation to continue, and we have factored that into our guidance.

**Julie Sweet**

Yes. And look, I would just say to you that technology skills are in demand by both companies as well as our competitors because technology is at the core of strategy. And so we're expecting to have a continued tight labor market, and we continue to expect us to really excel, because despite that market, as you know, even this last year, we added [almost] 100,000 people. So I don't -- the fact that there has been some layoffs in certain markets isn't really, I think, going to change much.

**Angie Park**

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

**Operator**

And that question will come from the line of Bryan Bergin with Cowen.

**Bryan Bergin**

I wanted to start on growth outlook. Can you just give us a sense on how you're thinking about the second half trajectory just in the fiscal '23 range? Just given a significant uncertainty, curious how you went about building that second half forecast. And then just within the year, are you expecting the strategic priorities to hold the double-digit growth? So across Song and Cloud First and X? Or are any of those a little bit more exposed to potential slowdown and uncertainty?

**KC McClure**

Yes. So I'll maybe just start with the overall outlook that we have, right. So you can see that we started with 8% to 11%. I already gave the color on that. So -- and within that, obviously, we have a strong start at 10% to 14% growth. And in terms of really what that looks like for the rest of the year, I mean we'll continue to give guidance like we typically do as we progress through FY '23. I mean, as Julie mentioned, we see continued strong demand in our technology -- our areas of technology. And other than that, we don't really give any more

guidance, and kind of view on revenue outlook, than what I've already shared.

### **Julie Sweet**

Yes. And just -- I think it's always important that we are continuously thinking about both the near term, this fiscal year and the longer term and anchoring on the five forces of change for the next decade. And so total enterprise reinvention, talent, we talked about the investments we're making in sustainability. We just made a great acquisition this quarter on Carbon Intelligence, which is all about consulting around carbon getting to net zero strategies. The Metaverse continuum, small today. We're the leading enterprise user in our own way of onboarding, but lots and lots of interest, and we're already making those investments, and then the ongoing tech revolution. And so that's why as you think about our results, right, we are investing for today and tomorrow and really are looking at the demand that we see over the next decade.

### **Bryan Bergin**

Okay. And then it looks like just on M&A, it looks like you did close on more in 4Q than you had initially anticipated. So how should we think about the planned spend in fiscal '23 for M&A underlying the 2.5% growth contribution? And then just how do you start off the year in 1Q? What's the inorganic assumption in that outlook?

### **KC McClure**

Yes, sure. So you're right, we did end up spending \$3.4 billion for the year in '22 because we were able to get some of the regulatory approvals done this last fiscal year '22, that we weren't sure of the timing. And you'll see that because of that, while we're going to continue to always provide the inorganic outlook on a full year basis -- so that 2.5% is a full year - we don't really do that by quarter because that, again, can also be lumpy. We're not going to continue to provide the capital allocation amount as we go into '23, just because it can really vary by the end of the year, and you'll be able to see it and we'll report it every quarter.

## **CONCLUSION**

### **Julie Sweet**

Yes, it's probably worth reminding that last Q1, we had Umlaut and Novetta, which were both very large acquisitions come in, in Q1. So probably just good to remind everyone that's part of what's driving the Q1 S&C results too.

Great. So before we wrap up, I do want to mention that Angie Park, who has been our Head of Investor Relations for the past 6 years, has been promoted to become the CFO for our really outstanding Technology services business. Angie has been an absolutely incredible Head of IR and we're particularly grateful for how she has helped lead us through some of the most turbulent times in the history of Accenture. I know from speaking to our investors and analysts how much they've appreciated Angie's steady hand, her commitment to transparency, and connection. And I know we'll all miss her in this role, but are extremely excited to see her start the next chapter of what has already been an incredible career. So thank you very much, Angie.

And I am also pleased to welcome Katie O'Connor who will become our new Head of Investor Relations. She's got incredible experience. She's held many finance roles during her 25 years at Accenture. So please join me in welcoming Katie and I know she's looking forward to getting to know all of you in the days ahead. In closing, I do want to thank again all of our people and our managing directors for what you're doing every day. Our people, our actions and our results in FY '22 have positioned us to be very strongly going into FY '23, and create



even more 360-degree value. And finally, and very importantly, thank you to all of our shareholders for your continued trust and support. Thank you.

**Operator**

Ladies and gentlemen, that does conclude our conference for today.