

# Accenture

## Second Quarter Fiscal 2024 Financial Results

### Conference Call Transcript

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#### **CORPORATE PARTICIPANTS**

**Katie O'Connor** – *Managing Director, Head of Investor Relations*

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

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

## **Katie O'Connor**

Thank you, operator, and thanks, everyone, for joining us today on our second quarter fiscal 2024 earnings announcement. As the operator just mentioned, I'm Katie O'Connor, 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 second quarter. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the third quarter and full fiscal year 2024. 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, Katie, and everyone joining, and thank you to our 742,000 people around the world who work every day to deliver 360-degree value for all our stakeholders.

I'm pleased with our performance in an uncertain macro. Our results highlight the benefit of the deep trust our clients have in us, our capabilities to do the most complex work at the heart of their businesses, the privileged position we hold within the ecosystem and our ability to invest for the next waves of growth.

We continued to see momentum in the quarter on how we are executing on our strategy to be the trusted reinvention partner of our clients, with a record 39 clients

with quarterly bookings greater than \$100 million. These large transformational wins position us to capture more growth as spending increases.

We also had over \$600 million in new gen AI bookings, taking us to \$1.1 billion in gen AI sales in the first half of the fiscal year, expanding our early lead in gen AI, which is core to our clients' reinvention. We now have over 53,000 skilled data and AI practitioners, against our goal of doubling our data and AI workforce from 40,000 to 80,000 by the end of fiscal year '26.

We are laser-focused on the needs of our clients, and this focus is reflected in our bookings of \$21.6 billion, representing our second highest quarter on record. This included \$10 billion of bookings in North America, our highest ever. We continued to take market share with revenues of \$15.8 billion for the quarter, flat compared to last year and slightly above the midpoint of our range.

As we turn the page on the calendar year, we saw another turn of the dial on constraining spending by our clients, including spending on our services, particularly in parts of EMEA and North America. This was evident in the composition of our new bookings, which came in differently than expected.

We see clients continuing to prioritize investing in large-scale transformations, which convert to revenue more slowly while further limiting discretionary spending, particularly in smaller projects. We also saw continued delays in decision-making and a slower pace of spending. We are pleased that despite these conditions, our focused efforts to return to growth resulted in North America and CMT showing improvement over last quarter.

We are running our business with rigor and discipline, and we remain on track with the business optimization actions we announced last year to reduce structural costs to create greater resilience. We delivered adjusted EPS growth of 3%. We continue to invest significantly in our business to drive additional growth in highly strategic areas with \$2.1 billion of capital deployed across our geographic markets in Q2 in 11 acquisitions, bringing the total investment in acquisitions to \$2.9 billion in H1 across a total of 23 acquisitions.

We also continue to invest in learning for our people with approximately 10 million training hours in the quarter, representing an average of 14 hours per person. In recognition of the 360-degree value we create, we are proud that we earned the #1 position in our industry for the 11th year in a row and #33 overall on Fortune's list of the World's Most Admired Companies.

We ranked #1 in our industry and #3 overall on the Just Capital CNBC list of America's most just companies. And we have been recognized by Ethisphere as one of the world's most ethical companies for the 17th year in a row. An important part of our growth strategy is to use our strong balance sheet to invest in order to scale higher growth areas and expand into new growth areas.

We have a strong track record of delivering on this strategy. Here are some highlights from the quarter. In North America, we invested in supply chain, an area with significant reinvention ahead, with the additions of Insight Sourcing, Impendi, and OnProcess Technology. We acquired Navisite to help clients across multiple cloud providers, enterprise applications and digital technologies modernize their digital core. And in Song, we acquired Work & Co, to help our clients drive growth by designing and bringing digital brand strategies to market and operationalizing world-class digital products at scale.

In EMEA, we are investing to help clients build their digital core and drive growth. In the U.K., we invested in 6point6, which will help our clients transform their digital capabilities and modernize their legacy systems. We also acquired in the U.K., Red Kite, with its full stack data expertise that will help our clients accelerate their performance with data-driven intelligence and AI.

And in Germany, we added Vocatus, which will accelerate our clients' growth strategies using behavioral economics modeling to develop pricing strategy and sales concepts for B2B and B2C models. Similarly, in growth markets, our acquisitions position us to drive our clients' growth agendas by expanding our capabilities in marketing and customer experience with Rabbit's Tail in Thailand and Jixie in Singapore, helping clients in Indonesia capitalize on their fast-growing digital economy.

Our ability to invest to fuel our organic growth is a competitive advantage. And as our clients continue to transform, we announced earlier this month that we will invest \$1 billion over the next 3 years in Accenture LearnVantage, which will provide comprehensive technology learning and training services to help our clients reskill and upskill their people.

Our investment includes the acquisition of Udacity, a digital education pioneer, which we expect to close by the summer. Once closed, we will have revenue in the zone of \$100 million annually. These services are highly strategic, and they enhance our position as a reinvention partner of choice because talent is at the top of the agenda for CEOs.

For example, we are helping Merck, a global biopharmaceutical company known as MSD outside of the United States and Canada, launch a groundbreaking generative AI training program for their employees to create world-class digital leaders. As a renowned thought leader in the biopharmaceutical market, Merck has long led the way in investing in its people and helping them build the skills and expertise needed to develop breakthrough therapies.

Digital, data, analytics and AI play a pivotal role in discovering, developing, manufacturing and providing access for patients to medicines and vaccines. By once again investing in its people, Merck will be able to continue delivering on its promise

to use the power of leading-edge science to save and improve lives around the world. 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 were pleased with our overall results in the second quarter, with our second highest quarter of new bookings. We continue to invest at scale to strengthen our leadership position while delivering value for our shareholders.

Now let me summarize a few of the highlights of the quarter. Revenues were flat in local currency with mid-single-digit growth or higher in 6 of our 13 industries, including public service, life science, utilities, energy, health and high tech.

While our CMT industry group improved this quarter, we continue to see pressure as expected, and we continue to take market share. As a reminder, we assess market growth against our investable basket, which is roughly two dozen of our closest global public competitors, which represents about a third of our addressable market. And we use a consistent methodology to compare our financial results to theirs, adjusted to exclude the impact of significant acquisitions through the date of their last publicly available results on a rolling 4-quarter basis.

Adjusted operating margin of 13.7% decreased 10 basis points compared to Q2 last year, and year-to-date operating margin is flat. This includes continued significant investments in our people and in our business. We delivered adjusted EPS in the quarter of \$2.77, reflecting 3% growth over adjusted EPS last year.

Finally, we delivered free cash flow of \$2 billion and returned \$2.1 billion to shareholders through repurchases and dividends. In the first half of the year, we have invested \$2.9 billion in acquisitions across 23 transactions.

With those high-level comments, let me turn to some of the details, starting with new bookings. New bookings were \$21.6 billion for the quarter, representing a 2% decline in both U.S. dollar and local currency, with an overall book-to-bill of 1.4. Consulting bookings were \$10.5 billion with a book-to-bill of 1.3. Managed Services bookings were \$11.1 billion with a book-to-bill of 1.4.

Turning now to revenues. Revenues for the quarter were \$15.8 billion, flat in both U.S. dollars and in local currency and were slightly above the midpoint of our guided range. Consulting revenues for the quarter were \$8 billion, a decline of 3% in both U.S. dollars and local currency.

Managed Services revenues were \$7.8 billion, up 3% in both U.S. dollars and local currency. Taking a closer look at our service dimensions, Technology Services grew low-single digits and Operations and Strategy & Consulting declined low-single digits.

Turning to our geographic markets. In North America, revenue was flat in local currency with growth in Public Service offset by declines in Banking & Capital Markets, Software & Platforms and Communications & Media.

In EMEA, revenues declined 2% in local currency with growth in Public Service, offset by declines in Communications & Media, and Banking & Capital Markets. Revenue growth in Italy was offset by declines in the United Kingdom, France and Ireland.

In Growth Markets, revenue grew 6% in local currency, led by growth in Banking & Capital Markets, Industrial, Public Service and Chemicals & Natural Resources. Revenue growth was driven by Japan and Argentina, partially offset by declines in Australia and Brazil.

Moving down the income statement. Gross margin for the quarter was 30.9% compared with 30.6% for the same period last year. Sales and marketing expense for the quarter was 10.3% compared to 9.9% for the second quarter last year. General administrative expense was 6.9% compared to 6.8% for the same quarter last year. Before I continue, I want to note that in Q2 of FY '24 and FY '23, we recorded \$150 million and \$244 million in costs associated with our business optimization actions, respectively.

These costs decreased operating margin by 70 basis points and EPS by \$0.14 this quarter, and operating margin by 150 basis points and EPS by \$0.30 in Q2 of last year. The following comparisons exclude these impacts and reflect adjusted results. Adjusted operating income was \$2.2 billion in the second quarter, reflecting an adjusted operating margin of 13.7%, a decrease of 10 basis points from adjusted operating margin in the second quarter of last year. Our adjusted effective tax rate for the quarter was 18.8% compared with an adjusted effective tax rate of 20.4% for the second quarter last year.

Adjusted diluted earnings per share were \$2.77 compared with adjusted diluted EPS of \$2.69 in the second quarter last year. Days services outstanding were 43 days compared to 49 days last quarter and 42 days in the second quarter of last year. Free cash flow for the quarter was \$2 billion, resulting from cash generated by operating activities of \$2.1 billion, net of property and equipment additions of \$110 million.

Our cash balance at February 29 was \$5.1 billion compared with \$9 billion at August 31. With regards to our ongoing objective to return cash to shareholders, in the second quarter, we repurchased or redeemed 3.8 million shares for \$1.3 billion at an average price of \$352.35 per share.

As of February 29, we had approximately \$4.6 billion of share repurchase authority remaining. Also in February, we paid a quarterly cash dividend of \$1.29 per share for a total of \$813 million. This represents a 15% increase over last year. And our

Board of Directors declared a quarterly cash dividend of \$1.29 per share to be paid on May 15, a 15% increase over last year.

In closing, we remain laser-focused on capturing growth opportunities in the market and delivering value for our clients. As you know and expect of us, we will operate with rigor and discipline while continuing to invest for long-term market leadership.

Now let me turn it back to Julie.

## **Julie Sweet**

Thank you, KC. Let me give a little more color on the demand environment. Well, all strategies continue to lead to technology and reinvention. Our clients are navigating an uncertain macro environment due to economic, geopolitical and industry-specific conditions. And in response, we're seeing them thoughtfully prioritize larger transformations building out their digital core, to partnering to improve productivity to free up more investment capacity, to focus on growth and other initiatives with near-term ROI.

Our focus on being at the center of our clients' business doing their most complex transformational work provides us with resiliency over time, as demonstrated by the fact that our top 100 clients have been clients for over 10 years. There is now near universal recognition of the importance of AI, which is the heart of reinvention.

The ability to use AI at scale, however, varies widely with clients on a continuum, with those which have strong digital cores generally seeking to move more quickly, while most clients are coming to grips with the investments needed to truly implement AI across the enterprise, and nearly all are finding it difficult to scale because the AI technology is a small part of what is needed.

To reinvent using technology, data and AI, you must have the right digital core, change your processes and ways of working, reskill and upskill your people, and build new capabilities around responsible AI, all with the deep understanding of industry and function in order to unlock the value. And many clients need to first find more efficiency to enable scaled investment in all these capabilities, particularly in their data foundations.

We are able to help our clients with this AI rotation because of our broad services across strategy and consulting, technology and operations as well as everything customer through Song and digital manufacturing and engineering through Industry X. And our relevance across the functions of the enterprises in 13 industries.

Our privileged position in the technology ecosystem has perhaps never been more important. Generative AI is rapidly evolving and still in the early stages of maturity and adoption, and we are working closely with our ecosystem partners to help our

clients understand the right data and AI backbone that is needed, and how to achieve tangible business value.

I will now bring to life the complex work we are doing at the heart of our clients' businesses.

Building on the back of a long, trusted partnership, we are working with Mondelēz International, a world leader in snacking with well-known brands like Oreo, Belvita and Cadbury, to continue to drive growth and be an industry leader. Having laid the foundations of a strong, shared services model by powered by leading technology platforms and a data and AI foundation, we are now working on an ambitious reinvention of their digital core. We will design and implement a single cloud-based platform while also modernizing the finance function and transforming their supply chain planning and warehouse management capabilities. This will enable faster availability of products for customers, driving more sales growth and maximum profitability. This new digital core will also allow Mondelēz to further reinvent how they satisfy customers through the adoption of new technologies like generative AI.

Cloud continues to be the foundation of the digital core. Our cloud business grew high single-digits as clients do work across the cloud continuum, from migration to modernization, to new business models, to working at the intelligent edge.

For example, we're helping Riyadh Air, a digitally-native airline based in Saudi Arabia become the world's first fully cloud-based airline. We will equip the brand-new airline with cloud-only infrastructure, enhanced cybersecurity and AI-driven operations. Our capabilities will ensure that Riyadh Air's digital core is future-proof and remains legacy free, enabling the airline to use cutting-edge technologies such as cloud, data and AI to scale quickly and deliver a seamless and more personalized travel experience for its customers and employees. This will also help the company scale as it plans to operate over 100 destinations by 2030.

We are partnering with Belden, a global networking solution organization on a cloud transformation program that will help them become a platform business, unlocking the power of edge, data and AI to drive new business opportunities and enhance the customer experience. This platform will be powered by edge to cloud technology, allowing them to collect and analyze real-time data from industrial environments and improve operational efficiencies. This will provide valuable data-driven insights to build them and to their clients in industries where real-time insights are crucial. This reinvention will enable them to break down operational technology silos, allowing them to become a key player in the digital twin domain. We will also help enable this new service in the market. This strategic partnership will support Belden's reinvention from a products company into a data engineering and insights company that leverages the power of platforms. We are focused on helping our clients leverage the power of AI quickly, generating tangible business value, leveraging our investment in differentiated tools that accelerate results.



Our AI Navigator has helped clients across industries outline their value case, AI architecture and AI solutions. And our recently announced AI switchboard is already helping clients with the complex new need for integration across LLM models.

For example, one of the largest entertainment companies is currently testing the switchboard to compare how the same prompt would be interpreted by different models and how they perform before deciding on which model to use.

Ultimately, an enterprise-wide AI rotation requires a strong data foundation. We are working with Telstra, Australia's leading telecommunications and technology company, on a radical simplification and modernization of its data ecosystem, accelerating its efforts to become AI-powered. We are modernizing and consolidating over 50 disparate enterprise data sources into a small integrated set forming Telstra's governed and secure data and AI core, allowing Telstra to rapidly scale bespoke generative AI capabilities in the future. Our work will also support the company's efforts to develop responsible, ethical and secure market-leading AI frameworks while helping their teams provide quicker, more effective and more personalized customer interactions.

One of the areas of richest opportunities for our clients is customer experience transformation, including with generative AI, which uses the unique capabilities of Song across creative, customer insights and deep technology expertise. Song grew low single digits this quarter. We continue to help clients reimagine marketing to drive growth.

We're helping ExxonMobil, an energy supermajor, transform and optimize its end-to-end fuels marketing operations to drive future growth. With our global capabilities, our managed services will leverage our SynOps platform to drive automation and deliver measurable efficiencies across the fuels marketing business.

We are strengthening our partnership with Best Buy, a leading consumer electronics retailer across multiple fronts to reimagine the customer experience, optimize costs and drive growth. By leveraging data and generative AI, we are helping to transform their context in our operations and improve customer and employee experience. We are also pleased to have entered into an agreement with Best Buy for lifecycle management of our own Accenture devices in North America and are creating a joint offering of end-to-end field service device support for clients. We have already applied this new offering to a major TV provider, marking our first entry into this new market. These strategic initiatives underscore our commitment to helping Best Buy achieve superior customer experiences, operational efficiency and growth.

Security is essential to reinvention. Moving beyond IT to protecting the core assets of the business and evolving the critical role of security as technologies change. We saw very strong double-digit growth in our Security business this quarter.

We are working with one of the largest electric utility holding companies in the United States to integrate their operational technology into a seamless unified cybersecurity solution. Together, we will enhance our security capabilities by implementing advanced monitoring and response, vulnerability management and security automation. This will help reduce the risk of cyber events in their grid environment protecting critical infrastructure serving tens of millions of people.

We continue to see strong demand for digital manufacturing and engineering services. Industry X grew double digits in Q2.

We're working with Indo Count Industries Limited, a global leader in the home textile space, on digital transformation to simplify operations, support its ambitious growth plans and maximize e-commerce opportunity. We will build a cloud-enabled digital core powered by data and analytics that will help standardize, digitize and automate processes and operations. From supply chain to logistics to manufacturing, the new platform will enable more efficient inventory management, quality standardization, optimal energy consumption and better customer experiences. Together, we will reinvent their operations and help expand their business in India, Middle East, North America, the U.K. and Europe.

And we continue our support for corporate green transformation by promoting carbon footprint compliance through the calculation and visualization of greenhouse gas emissions. To create a market where consumers can choose environmentally conscious products and services, a system to visualize the carbon footprint of each product is necessary.

For example, we're assisting Matsumoto Precision, a precision machine parts processing company based in Japan to gain more detailed insights into the sustainability of their protection and achieve their decarbonization goal. We implemented a solution through our manufacturing platform that uses individual manufacturing performance information to record and report the CO2 emission on a per-product basis. This will allow Matsumoto Precision to enhance our understanding of the environmental impact of their business and contribute more effectively to the realization of a decarbonized society.

Back to you, KC.

**KC McClure**

Thanks, Julie.

Now let me turn to our business outlook. For the third quarter of fiscal '24, we expect revenues to be in the range of \$16.25 billion to \$16.85 billion. This assumes the impact of FX will be about negative 1% compared to the third quarter of fiscal '23 and reflects an estimated negative 1% to 3% positive growth in local currency.

For the full fiscal year '24, based upon how the rates have been trending over the last few weeks, we continue to expect the impact of FX on our results in U.S. dollars will be about flat compared to fiscal '23. For the full fiscal '24, we now expect revenue to be in the range of 1% to 3% growth in local currency over fiscal '23, which assumes an inorganic contribution approaching 3%.

We continue to expect business optimization actions to impact fiscal '24 GAAP operating margin by 70 basis points and EPS by \$0.56. For adjusted operating margin, we now expect fiscal year '24 to be 15.5%, a 10 basis point expansion over fiscal '23 results.

We now expect our adjusted annual effective tax rate to be in the range of 22.5% to 24.5%. This compares to an effective tax rate of 23.9% in fiscal '23.

We now expect our full year adjusted earnings per share for fiscal '24 to be in the range of \$11.97 to \$12.20, or 3% to 5% growth over fiscal '23 results.

For the full fiscal '24, we continue to expect operating cash flow to be in the range of \$9.3 billion to \$9.9 billion, property and equipment additions to be approximately \$600 million and free cash flow to be in the range of \$8.7 billion to \$9.3 billion.

Our free cash flow guidance continues to reflect a very strong free cash flow to net income ratio of 1.2. Finally, we continue to expect to return at least \$7.7 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. Katie?

**Katie O'Connor**

Thanks, KC. Operator, would you please provide instructions for those on the call?

## **QUESTIONS AND ANSWERS**

### **Operator**

(Operator Instructions) Your first question comes from the line of Tien-Tsin Huang from JPMorgan.

### **Tien-Tsin Huang, JPMorgan**

Julie, just a big picture, maybe too simple of a question, but just curious to get your thoughts on where we are in the cycle for IT services spend because we've been seeing sector softness for quite some time now. Accenture has done well. You had

very large deal activity come through - short-term cycle stuff, there is always a little pressure, as you said. Where are we in terms of seeing maybe things bottoming or short cycle discretionary spend returning?

## **Julie Sweet**

Yes. I mean, Tien-tsin, I think it's hard to predict at this point anything other than what we see right now, right? So what's different than 90 days ago? Well, as we said in December, we really get visibility into our clients' budgets in January. We say that every year, right?

And so as the calendar year, we turn the page, what we saw was a further tightening of spending at our clients particularly, and that affects our services, and particularly on the smaller projects. So from a sort of trend perspective, right, 90 days ago, we didn't see the same level. Now you've kind of turned the dial - a little bit more constraints. And that's where we see the budgets being set for calendar year '24, right?

And as you said, though, in this environment, we're taking market share. And we're seeing building momentum on our strategy to be the reinvention partner with a record 39 clients with bookings over \$100 million. So what does that tell you, right? So the clients understand the importance of the technology-led transformation, right? And the fundamentals remain the same, right? There's a lot more reinvention ahead.

When you look at where is cloud, right, both migration and modernization, we say about 80% of the opportunity is ahead, right? Data and AI, about 90% of the opportunities ahead. Re-platforming and cloud-based platforms, about 65% of that opportunity ahead based on who has actually adopted the more modern platforms and security -- well, I think security can be kind of forever ahead, but at least 65% ahead. And that's before you get to thinking about areas like digital manufacturing, engineering services, where that technology has only been coming online even in the last couple of years, so the modern technology, and of course, customer also, extraordinarily early days.

So where we really focus on is meeting clients where they are today, right? So that's prioritize the large transformational deals and then be positioned to capture the spending when it increases. And we see the sort of the industry as being very strong because all clients have to get there. They need to get to the technology transformation. They need to get to reinvention. And that's why you're seeing even at the constraints, you're seeing that early interest in gen AI. With \$1 billion sales in the first 6 months of the year, that is the fastest we have ever built sales in an

emerging technology. And what it tells you is that clients understand the importance of AI, that they're going to have to reinvent every part of the enterprise, and that's exactly where everything we've done for the last decade at Accenture, right?

Being the company, that can go from strategy, to build, to operations, deepen industry and functional expertise because of strategy and consulting, all comes together for this moment to be the partner for reinvention across the enterprise, not just to build the technology, but to use it to reinvent. And that's exactly what you see in these results which is why I'm super confident about the industry and in the future.

**Tien-Tsin Huang JPMorgan**

Yes. No, I am confident that Accenture will be there to catch all that, like you said. But maybe just my follow-up with the gen AI bookings. Any trends on deal size and confidence that some of these early bookings will convert to become part of this whole large \$100 million-plus deal activity across, or pull-through from gen AI that, if that question makes sense?

**Julie Sweet**

So a couple of things, right? What you see in our resilience is that we are doing these bookings over \$100 million, and that's what kind of layers – that's what gives you that base of resilience during this period. As we said, we've seen further constraint on the smaller projects. So that's why you've got the updated guidance, right?

But the base of these larger deals, we feel really good about from a resilience perspective. And then you know how this is, right? You're at the client. You're at the heart of their business. You're really doing the strategic work. That's what all these large deals represent. And then as spending increases, you catch the pent-up demand. And that's kind of how we see it, and that's how we've run it in the past.

And by the way, of course, as you know, we're really investing inorganically to capture more growth, which you also start to see, particularly at the back end of our fiscal year.

**Operator**

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

**Bryan Keane, Deutsche Bank**

KC, if Accenture does 1% constant currency in the third quarter, that's kind of the midpoint of the range. I guess the implied midpoint for 4Q is a ramp-up to 6% constant currency. What kind of visibility do you have going into a number of the midpoint like that in the fourth quarter?

**KC McClure**

Bryan, thanks for your question. And you're right, obviously, your math is correct. That would be what our guidance would say. In terms of visibility, look, it's really no different than what we have any time in the past in this part of the year for our full year guidance.

Obviously, we are not forecasting the whole year. We just have the back half of the year. There's no difference in visibility as it relates to what we've done any other time of the year, any other year this time. And we do our same analysis and outlook to provide you with our guidance of the 1% to 3%.

**Bryan Keane, Deutsche Bank**

Got it. And then, Julie, just thinking about clients needing to update their data in order to leverage AI and scale. Why isn't that translating into stronger demand in the business? You would think that everybody would turn around and spend considerably on short term to get that ramp up in order to get AI to leverage it, but it doesn't quite translate. I'm just trying to figure out the disconnect there.

**Julie Sweet**

Yes. So there's 2 things. So first of all, it's about prioritization, right? So their overall constrained on spending, right? So you make choices right, as opposed to it being additive. So they're not able to allocate extra budget, they're prioritizing their budget. You're seeing more of a substitution right now as opposed to, hey, we need to do this, let's add to the budget. And that's tied to the uncertain macro that's putting people constrained.

I had one banker say that corporates have put themselves on a diet, given the macro, right? The second thing, Bryan, is you have to remember that you can't just jump to the great data foundation, right? You need to be in the cloud. You've got to have modern platforms. And so what you should read into -- the clients doing these higher bookings, right, is that they're doing the big transformations often times to be ready to put in the data foundation, right? There's only still 40% of workloads in the cloud. 20% of those roughly haven't been modernized, right? Many of our

clients haven't put in the platforms. If you don't have the major ERP platforms that are modern, you don't create a data foundation to fuel GenAI in isolation.

So you've got to build the digital core. And as we've said, there's a lot more to go. And that's what's driving these larger complex transformations. Like people don't like to do these big transformations in the sense of they're big, they're hard, they're complicated, and they need to do them in order to ultimately be able to use the AI not just in a part of the business or as a proof of concept, but really to transform and get the value they now see.

And so it's -- again, you can't jump to AI. You've got to put all the pieces, and a lot of clients aren't there yet, which is our opportunity.

### **Operator**

Your next question comes from the line of James Faucette from Morgan Stanley.

### **James Faucette, Morgan Stanley**

Great. I wanted to follow on the questions around, particularly AI, et cetera. I recognize like everybody is kind of at different stages. How should we think about, first, the timeline in terms of preparing and getting ready for -- to implement new solutions, et cetera, and then moving into full implementation and how we should think about that affecting Accenture's business.

And like you mentioned, you've talked about some record bookings, or the number of new customers over \$100 million, like how that will ramp in the timeframe?

### **Julie Sweet**

Yes. Let me just start with like the strategy around capturing the growth opportunity from gen AI, right? So this is the same playbook that we have used in every wave of new technology evolution, right? When we went from mainframe to client server, then to cloud and Software as a Service, and then to RPA and AI-driven automation when you saw things like myWizard and SynOps, right?

We have the same strategy. The strategy starts with we want to be the first mover to help our clients use the technology. And that's why what we're doing with our investments of \$3 billion to create solutions for them, and you see that coming through with our sales in generative AI, which, as I said earlier, are the fastest we've ever seen in these new technologies because there's a lot of interest, and we're the leader.

So we want to be the first mover in helping our clients use it. The second part of our strategy is to be the first mover in using the technology itself to serve our clients, right? And we did that with like the digital, with AI automation with all of our platforms.

And what that does, it's a proven formula, because if we invest big to be early and be the first mover, right, then we're positioned to capture all the opportunity with our clients because they need to adopt it and transform. And as I just went through, that requires a lot, the digital core, then you've got to actually use it to change new ways of working, right, to upskill your talent, right, and build new capabilities like responsible AI.

When we are able to be the first mover, which we are already starting now to use gen AI in how we deliver, that enhances our competitive position, right? It makes us more differentiated. And of course, it also then allows our clients over time, the more we use the gen AI, to achieve the results they need at a lower cost, which frees up their investment capacity to do the massive reinvention. And of course, we are then best positioned to be their partner as they reinvest in using the tech and AI to reimagine their enterprise.

And for that use of AI, because remember, as you think about the growth, right, you've got a lot of the digital core, that's got to be built, right? You can't jump that step, right? It's not a magic technology, right? But then as you build it, you're going to have to go function by function to change the way you work to actually get the productivity and the growth. So we really see this as being kind of the next decade of what our clients are going to be focused on, and we're positioning ourselves to be their partner and be the first mover in both places.

## **KC McClure**

Yes. And maybe I'll take the layering in question on the larger deals. And talk a little bit about how that's going to work for the back half of the year as it relates to guidance, right? So we have the larger deals that were terrific, right, in our second quarter and our whole first half of the year. But you're right, they do layer in slower than the smaller deals, and we see pressure in the volume of our smaller deals. And that's why we have the 1% to 3% guidance for the full year. Now we do feel good about delivering to this guidance and what that means for H2. And that really is for a few reasons that we've talked about before, but let me just kind of reiterate.

The first is that our competitive advantage is that we have the ability to invest. And you saw us do that in H1, and Julie talked about that with investing more in acquisitions this year in the first half than we did all of last year.



And that's really important because that drives inorganic growth. But again, we do that really to fuel organic growth, but we see that coming online in the back half of the year.

The second thing is that we have done these larger transformation deals, but also the ones from the previous years. And we see that continuing to benefit us as it relates to revenue as they will layer on in the back half of the year. And that really just speaks to the resilience of our strategy, both in terms of being -- what Julie has talked about, being where our clients need us, and our inorganic strategy to continue to benefit, to pivot to scale in new areas of growth.

And so that's how that all kind of comes together in terms of revenue conversion from those larger deals and when they come online, James. And maybe I'll just also add what that means for type-of-work for the entire year. What we now see from the context of the 1% to 3% is our consulting type of work probably will be about flattish, and we see our managed services growing to about mid-single-digit growth for the year.

### **James Faucette, Morgan Stanley**

Great. And quickly, KC, just in terms of debt investment, how do we think about like how that affects the margin expansion? I mean, typically, when you're doing acquisitions, there's a little bit of time before you can start to get people to the same type of trajectory as Accenture's margin expansion. But just trying to get a sense of how we should think about that impacting as well.

### **KC McClure**

Yes. Well, first of all, I just want to put out that I'm really pleased with our profitability in the first half of the year and the outlook for our profitability for the full year. Margin is flat, but we have EPS growth for the first half of the year, profit growth of 5% and that really just points to the rigor and discipline that we continue to operate our business in.

Well, really importantly, Julie talked about all the investments we're making in our business and our people continue, right? So as you look at the back half of the year, we now see the 10 basis points expansion, is where we see it. Again, very important, continue to have high levels of investment in our people in our business.

In EPS, we see for the whole year at about 3% to 5%. One thing I will point out, just to help all of you. We did benefit from the first half of the year in our EPS with higher nonoperating income, which makes a lot of sense on interest income on our higher cash balance. In the first half, you see that our cash went from 9 to 5, still

great cash. We can -- no concerns. We'll continue with our capital allocation strategy.

But just as you model in the back half of the year, you'll see that not surprisingly with lower cash, we'll have lower interest income. So just as you're working through your EPS modeling for the first half and the second half, that's something that you might want to consider.

**Operator**

Your next question comes from the line of Bryan Bergin from TD Cowen.

**Bryan Bergin, Cowen**

So Julie, I'm curious, just based on your conversations with leaders what might be the catalyst here to have clients release spending programs and kind of lean back into shorter cycle work? Just as economic data generally holds up, are we just in a slower for longer backdrop? Or I'm just kind of hoping you can share some color on how you're thinking about a recovery internally here and what enterprises really are watching and waiting for?

**Julie Sweet**

Look, I think there's going to be a couple of dynamics, right? Like remember, they just set budgets. So we're kind of assuming these are the budgets for their calendar year. And we see, in general, most of this constraint is tied to the uncertain macro. So those are the kind of things, they've set budgets, and they've got uncertain macro.

**KC McClure**

Yes. And just a reminder that everything that we're talking about in terms of giving guidance, I know all of you know this, but just as a reminder, our fiscal year ends in August, right? So it's a little bit over halfway through the calendar year.

**Bryan Bergin, TD Cowen**

Okay. That makes sense. And then as it relates to gen AI, just kind of the revolutionary versus evolutionary kind of questioning here. Just given how much work needs to be done for most clients to really do anything with large language models. How do we interpret that as a driver of your growth. So meaning, does Gen AI enable you to potentially drive a higher level of growth when spending does become more normal? Or should we think about this more as a next tech wave that

enables comparable levels of normalized growth just because of how long this might all take for large enterprises to get there.

**Julie Sweet**

What I'd say is this is more about -- we think of this as prior technology waves, right? Each one has been a little bit faster, right, in terms of that. But especially when you look at kind of where our clients are on the continuum of building out that digital core. There is a lot to go, and you really need that to fully realize it. So we see this as more like our prior, kind of the way these things have evolved in the past. Right now, that's what we see.

**Operator**

Your next question comes from the line of Dave Koning from Baird.

**David Koning, Baird**

I guess my question, are you seeing your clients probably having much lower attrition, just like every company has low employee attrition right now. Are you seeing them take their own employees, their own IT employees and just do more internally right now? And is that a little bit of just the demand issue right now?

**Julie Sweet**

We certainly are seeing our -- obviously, our clients have invested in more technology internally at our advice, right? We've said to them during the pandemic with technology being so important, they should be building up their technology. So sure, there's clients, a lot of our clients - not all of them because it really depends on your positioning. So for some of our clients, that's really not the differentiator, right, so they want a smaller IT, and they've got others who built it up, and it really depends on where they are.

But sure, I mean, we certainly got clients doing more in-house as part of it. And we've got other clients outsourcing more, right? So it's really all over the map because it's very company-specific as to what makes sense for their strategy.

**David Koning, Baird**

Yes. Okay. And just one quick follow-up for KC. The tax rate. Clearly, you lowered guidance just on the tax rate itself. Is that something one-off to this year? Or is that something now that just seems more normalized?

**KC McClure**

Yes. So there's really 4 things that every year are the same that really influences the tax rate, and it just really is how those things come together. There are geographic mix of income, any settlements from previous years, the increase that we need to do on prior year tax liabilities. And lastly, the impact of our equity on our tax rate.

So those 4 things really are confluences or the same every year depending on how they fall, that's going to influence where we land in our tax rate. So this year, we saw them favorably in aggregate, so we were able to keep our 2-point range, but drop it by 1%.

**Operator**

Your next question comes from the line of Jamie Friedman from Susquehanna.

**James Friedman, Susquehanna**

I have a really big picture question. I'm curious, Julie, how you feel about Accenture's role in the broader context of technology like software and cloud. And I realize in your prior, very thoughtful answer about technology architectures, that was a great structure, as was your innovation session back on February 16. But it does seem like other parts of tech our doing better than services.

So I'm just interested in your perspective on services in the context of broader tech spending.

**Julie Sweet**

Yes. No, Absolutely. It's a great question, right? Services are where you can dial back more easily than when you're signing up for licenses for technology that you need, right? So you'd imagine, and which is what we're seeing, that when you're constraining overall spending, right, your discretionary spending, you go to service providers where you're saying, wait, I can pause for that. I can wait for that.

And at the same time, you've got, in other parts of it, like with software where you've got these things you really need to invest in and you've got different licenses. So it's really not different than other cycles as services have a bigger opportunity to say it's a little more discretionary, let's wait. Even if I bought the licenses, I'm going to wait to actually incur the cost. Because a lot of times, the cost of the services can be significantly higher than the software licenses, right?

Because you've got all the change that you've got to do and all of that around. So again, we don't see anything sort of different than when you've got an uncertain macro, you look around for your discretionary spending and you cut back. And that's why, of course, you're seeing still the big transformations happening because it's not discretionary and they've really got to replatform and that. So, nothing mysterious about it, it's kind of what I consider normal in this kind of a macro.

**KC McClure**

That's right. And I think just as a reminder, even with all of that, we still have the record spend with us, right, with \$40 billion of bookings for the first half of the year.

**Katie O'Connor**

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

**Operator**

That question comes from the line of Ashwin Shirvaikar from Citi.

**Ashwin Shirvaikar, Citi**

Julie, KC, going back to the question of bookings. Are clients actually revisiting existing bookings, ones that they signed maybe last year and times prior, relooking at them using the lens of applying, sort of rapidly evolving gen AI capabilities. To what extent is that happening and then that kind of then implies, obviously, can we use those past bookings and backlog as a indicator of future growth and how soon that can layer in?

**KC McClure**

Yes, Ashwin, I'll take maybe more just the financial, kind of mechanical part of it. We have not seen a change in the work that's already been contracted, what we would call our backlog. And what we talked about was really spending on new sales, new services in the smaller projects. And that's the dynamic that we have factored into our guidance for the year.

**Ashwin Shirvaikar, Citi**

Got it. And then the other question was on LearnVantage and Udacity. I thought that was a particularly interesting deal. If you could walk us through maybe the

mechanics of that deal. And every company is investing in talent here. This seems to be a bit different approach maybe. Could you just talk about the rationale, the downstream impact and so on?

## **Julie Sweet**

Sure. Thank you because I'm super passionate about what we're doing with LearnVantage because it is so critical for our clients. Talent is the #1 agenda item for CEOs, right, the #1. And when you think about what reinvention means, the clients have to do an AI rotation and they have to do a talent rotation, right?

And what LearnVantage does is, first and foremost, provides the ability for everything from the Board to the C-suite, to business users to the technologists to get the technology training they need to make the right decisions on AI, for example, right, to be able to become deeper in the new technologies. And so it really goes from the Board to the technologist.

And with Udacity, what we're able to provide is essentially the same approach Accenture uses, right? So we spent over \$1 billion ourselves. You saw our latest average 14 hours per employee. And we use learning science to learn and do. Most of our clients are unable to do that. The big differentiator for us in the market here is that we, Accenture, know when you train someone, we have to then put them on a job and they have to get paid to do something. So they are work-ready. So we're bringing that expertise, now at scale to our clients.

And what Udacity does is the same thing. They use experts, mentors, they have a real project work that they then coach people on. So it's that same sort of approach of learn and do, but our companies -- our clients don't have all the work that we do. So Udacity has created this ability.

And it's coupled then with Accenture's deep understanding of what it takes to train and be work ready. So we're really excited about it. Our clients are excited about it. They've been coming to us. We've been doing this learning, and this enables us now to do it at scale. And again, we want to be the reinvention partner. So the more that we can fill all of the needs of our clients around that, the better position that we will be. So we see LearnVantage as highly, highly strategic.

And by the way, it also has -- we have a managed service today to actually manage the learning services that companies are now doing internally, which we also we're investing and expect to grow. So very excited.

And then finally, we all have a responsibility as corporates to bring our people along the journey. And so when people worry about things like AI and displacement, right, we feel that our ability to bring like proven upskilling expertise to help our clients be able to bring their people is really, really important. It's important for our communities. It's important to their boards, and we all should consider it really important, it's the right thing to do.

## **CONCLUSION**

### **Julie Sweet**

Great. So thanks, everyone. In closing, I want to thank all of our shareholders for your continued trust and support, all of our people for what you do every day to assure you that we are working every day to continue to earn that trust. Thank you.

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