

Accenture

First Quarter Fiscal 2025 Financial Results

Conference Call Transcript

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CORPORATE PARTICIPANTS

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Katie O'Connor

Thank you, operator, and thanks everyone for joining us today on our first quarter fiscal 2025 earnings announcement. As the operator just mentioned, I'm Katie O'Connor, Managing Director, Head of Investor Relations.

On today's call, you will hear from Julie Sweet, our Chair and Chief Executive Officer, and Angie Park, 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. Angie will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for the first quarter. Julie will then provide an update on our market positioning before Angie provides our business outlook for the second quarter and full fiscal year 2025. 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 the 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 nearly 799,000 people around the world for their extraordinary work and commitment to our clients, which resulted in a strong quarter of financial results, creating 360-degree value for all our stakeholders.

I am very pleased with our performance this quarter, as we delivered on our strategy to position Accenture for strong growth in fiscal year 2025.

Here are a few highlights of the 360-degree value we created:

Our clients continue to prioritize large-scale transformations, and we are their reinvention partner of choice, as reflected in our bookings of \$18.7 billion, including 30 clients with quarterly bookings greater than a \$100 million.

We grew 8% in local currency this quarter with revenue of \$17.7 billion, approximately \$240 million above the top end of our guided range, and continue to take market share on a rolling four-quarter basis against our basket of our closest global publicly traded competitors, which is how we calculate market share.

We had another milestone quarter in GenAI with \$1.2 billion in new bookings and approximately \$500 million in revenue.

Operating margin was flat compared to adjusted operating margin last year. EPS grew 10% over Q1 adjusted FY24 EPS. While we continue to invest in our business and our people, with \$242 million deployed primarily across five acquisitions, and with approximately 14 million training hours this quarter designed to help us bring the latest in solutions and technology to our clients, provide our people with marketable skills, and reinvent our services using GenAI. This averages 19 hours per person.

We increased our data and AI workforce to approximately 69,000 continuing progress against our goal of 80,000 by the end of fiscal year 2026.

We are proud to be recognized by Fortune as one of the world's best workplaces, jumping from #10 to #6. This recognition is important, as it is based on feedback from our people around the world. An essential part of our strategy is having access to the best people and being an attractive workplace is critical to our success.

And in recognition of our strong brand, we are proud to earn our highest brand value to date on Interbrand's Prestigious Best Global Brands List, increasing to \$21.9 billion and ranking #31.

We continue to invest in creating and maintaining thriving communities, which our long-term growth depends on. This quarter, among other things, Accenture has partnered with the NGO Instituto PRO-A in Brazil to help transform the lives of low-income youth by providing them with digital skills to enter the workforce.

I am very pleased with our results this quarter and our return to broad-based growth due to our strategy to be our clients' reinvention partner of choice. We also have a resilient business model with diversity across markets, industries, and the types of work our clients come to us for, both Consulting type of work and Managed Services.

Over to you, Angie.

Angie Park

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

We were very pleased with our results in the first quarter, which exceeded our expectations and reflect momentum across our business. We are particularly pleased with our strong revenue growth, which was broad-based across geographic markets, industry groups, and Consulting and Managed Services, demonstrating we are a leader in the market as a trusted reinvention partner for our clients. Based on the strength of our first quarter results, we are increasing our full year revenue outlook, which I will cover more detail later in our call.

So, let me begin by summarizing a few highlights in the quarter.

Revenues grew 8% in local currency above the top end of our guided range with 6 of our 13 industries growing double digits, and we continue to take market share.

We delivered EPS in the quarter of \$3.59, reflecting 10% growth over adjusted EPS last year. Operating margin was 16.7% for the quarter, consistent with adjusted Q1 results last year and includes significant investments in our people in our business.

Finally, we delivered free cash flow of \$870 million and returned \$1.8 billion to shareholders through repurchases and dividends. We also invested \$242 million primarily attributed to five acquisitions in the quarter.

With those high-level comments, let me turn to some of the details starting with new bookings.

New bookings were \$18.7 billion for the quarter representing 1% growth in both U.S. Dollars and local currency with an overall book-to-bill of 1.1.

Consulting bookings were \$9.2 billion with a book-to-bill of 1.0.

Managed Services bookings were \$9.5 billion with a book-to-bill of 1.1.

Turning now to revenue.

Revenues for the quarter were \$17.7 billion, a 9% increase in U.S. Dollars and 8% in local currency, approximately \$240 million above the top end of our guided range. The foreign exchange impact for the quarter was approximately positive 1% compared with the positive 1.5% estimate provided last quarter.

Consulting revenues for the quarter were \$9 billion, up 7% in U.S. Dollars and 6% in local currency.

Managed Services revenue were \$8.6 billion, up 11% in both U.S. Dollars and local currency, driven by double-digit growth in technology-managed services, which includes our application-managed services and infrastructure-managed services, and high single-digit growth in operations.

Turning to our geographic markets,

In the Americas, revenues grew 11% in local currency. Growth was led by industrial, software and platforms, banking and capital markets, and consumer goods, retail, and travel services. Revenue growth was driven by the United States and Argentina.

In EMEA, revenues grew 6% in local currency, led by growth in public service, life sciences, and health, partially offset by a decline in banking and capital markets. Revenue growth was driven by the United Kingdom and Italy, partially offset by a decline in France.

In Asia Pacific, we delivered 4% revenue growth in local currency driven by growth in utilities, industrial, and health, partially offset by a decline in chemicals and natural resources. Revenue growth was led by Japan, which represents approximately half of Asia Pacific, partially offset by declines in Singapore and Australia.

Moving down the income statement,

Gross margin for the quarter was 32.9% compared to 33.6% for the first quarter last year.

Sales and marketing expense for the quarter was 10.2% compared with 10.5% for the first quarter last year.

General and administrative expense was 6% compared to 6.4% for the same quarter last year.

Before I continue, I want to note that in Q1 of last year, we recorded \$140 million in costs associated with our business optimization actions, which decreased operating margin by 90 basis points in EPS by \$0.17. The following comparisons exclude these impacts and reflect adjusted results.

Operating income was \$2.9 billion in the first quarter reflecting a 16.7% operating margin consistent with adjusted operating margin in Q1 of last year.

Our effective tax rate for the quarter was 21.6% compared with an effective tax rate of 23.2% for the first quarter last year.

Diluted earnings per share were \$3.59 compared with adjusted EPS of \$3.27 in the first quarter last year reflecting 10% growth over adjusted EPS in Q1 last year.

Days services outstanding were 50 days compared to 46 days last quarter and 49 days in the first quarter of last year.

Free cash flow for the quarter was \$870 million resulting from cash generated by operating activities of \$1 billion, net of property and equipment additions of \$152 million.

Following the completion of our \$5 billion inaugural debt offering, our cash balance at November 30th was \$8.3 billion compared with \$5 billion at August 31st.

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

In the first quarter, we repurchased or redeemed 2.5 million shares for \$898 million at an average price of \$355.03 per share. As of November 30th, we had approximately \$5.9 billion of share repurchase authority remaining.

Also, in November, we paid a quarterly cash dividend of \$1.48 per share for a total of \$926 million. This represented a 15% increase over last year and our Board of Directors declared a quarterly cash dividend of \$1.48 for share to be paid on February 14th, a 15% increase over last year.

So in summary, we are very pleased with our Q1 results, and we are off to a strong start in FY25.

And now, let me turn it back to Julie.

Julie Sweet

Thank you, Angie.

Starting with the demand environment, we saw more of the same. Our clients are focused on reinvention, which means large-scale transformations. We do not currently see an improvement in overall spending by our clients, particularly on smaller deals. When those market conditions improve, we will be well-positioned to capitalize on them, as we continue to meet the demand for the critical programs our clients are prioritizing.

As expected, building the strong digital core required for reinvention was a strong driver of our growth this quarter. GenAI continues to be a catalyst for reinvention across the enterprise and building out the data foundation necessary to capitalize on AI, as an increasing part of that growth. Themes around achieving both cost efficiencies and growth continue across the demand we're seeing.

Through the examples from Q1, you can see both our strategy to be the reinvention partner of choice and how we are bringing together our services, our ecosystem relationships, and our scaled investments in cutting-edge platforms like SynOps and GenWizard, as well as technologies like GenAI, to drive value for our clients.

We are helping our clients build their digital core, including in the cloud, which saw double-digit growth this quarter.

Accenture Federal Services is working with the U.S. Air Force, the nation's military service air branch, on a cloud modernization journey to manage its complex IT environment so that military personnel can maintain their competitive edge. We will develop a multi-cloud ecosystem using services from multiple providers to create a robust, secure, and integrated infrastructure. This will enhance how different systems and devices work together and communicate to quickly implement cutting-edge tools and technologies.

We will also provide managed services that foster collaboration and enable personnel to quickly make data-driven decisions about their cloud usage and costs while adapting to changing mission requirements. This partnership will enable the U.S. Air Force to get the

most out of their cloud investments to achieve real-time cost transparency, accelerated cost savings, increased efficiency, and improved agility.

Our industry expertise is critical to building the right digital core.

We are partnering with the BCC Iccrea Group, Italy's largest cooperative banking group, through a joint venture with its IT subsidiary on a reinvention journey to help over 100 affiliated banks grow. Our managed services will modernize the IT platform and migrate applications to the cloud, enhancing resiliency, stability, and service quality. We will also consolidate data and build an integrated cloud platform for advanced analytics and AI, strengthening their digital core. GenAI will be applied to increase internal IT efficiency and reduce customer response time on digital interaction channels. We will expand digital offerings, employee onboarding, and payments using our suite of shared finance services solutions. A change management communications program will offer targeted up-skilling and re-skilling opportunities to ensure employees use new technologies and methodologies effectively. Together we will help BCC, Iccrea Group, reduce costs and drive innovation, enabling the banking group to be more competitive and bring new products and services to market faster.

Security is an absolutely essential component of every company's digital core, and we again saw very strong double-digit growth. We are the partner-of-choice in part because we bring both the understanding of cross industry threats and industry specific threats with our deep experience across 13 industry groups.

We are supporting a leading aircraft manufacturer and its cybersecurity across aerospace and defense on critical infrastructure and production systems. We will provide managed services and solutions for their cyber security capability, leading to a more powerful and secure program, bringing security by design and industrial assets and the extended enterprise. Our solutions will help provide improved security and meet regulatory compliance.

We are also helping with the digitization of manufacturing and supply chains. Industry X grew double digits this quarter.

We are continuing to evolve our long-time partnership with a global leader in tire manufacturing to revolutionize the way factories operate and to reduce time-to-market for new products, accelerating innovation. We will build a hybrid data foundation in the cloud, integrating millions of data points. We will also implement advanced analytics, AI, and digital twin technologies to optimize operations processes such as quality checks. This will enable the company to trace the root cause of a failed batch of tires back to a machine or process in minutes instead of days. And predictive maintenance will pinpoint what parts of their process or machinery may be impacting quality and productivity, preventing costly down times. Engineering teams will benefit from machine learning and simulation tools to generate and optimize the design of new products. We will also implement new ways of working to attract tech-savvy talent and cultivate a learning culture where employees in over 100 factories are upskilled on the AI powered tools. The company will look to increase growth opportunities and support their digital first strategy, all while remaining competitive in the market.

We are partnering with PUMA India, a leader in sports lifestyle products, to reinvent their supply chain and distribution network. This will meet the ever-evolving customer demand for order delivery in a highly competitive, omni-channel market where quick commerce is becoming the norm. We will use data and AI to identify and set up localized fulfillment centers, optimizing their size and location based on customer sales. Digital twins of these facilities will simulate various process designs and physical automation scenarios to identify bottlenecks. This will help redefine warehouse layouts and improve material flow for more efficient order and return processing, delivering orders up to 70% faster with express delivery for online orders expected to double. Supply chain costs are also expected to decrease by up to 10%, and additional features like solar power and EV charging stations at fulfillment centers will further reduce costs and support sustainability goals. PUMA India will be the first amongst sports brands in the region to build this type of cutting-edge operating model, enhancing customer loyalty to drive future growth.

We are reinventing all things customer through Song, which grew high single digits this quarter. We have the ability to integrate creative, data and AI, tech and strategy while leveraging our industry and operations expertise to unlock marketing as a growth enabler for our clients while delivering efficiencies.

We are helping Spotify optimize its advertising business by finding opportunities to drive efficiency as it scales globally. Our marketing operations managed services support their ad operations under a single roof, touching a significant amount of their ad revenue across 150 markets. We've infused automation across their operational workflows to help significantly reduce the time and effort required to launch advertisers' campaigns, getting them to market more quickly to help ensure revenue realization and advertiser satisfaction. We continue to expand beyond ad operations, actively launching new capabilities across analytics and insights, data integrity and enrichment, customer support, and more. Our partnership helps Spotify to focus on its core competencies so it can achieve long-term relevance and growth in an increasingly competitive market.

We are collaborating with CaixaBank, a leading financial group in Spain, on their plan to enhance customer and employee experiences. We will increase productivity and efficiency by leveraging AI and GenAI to build multiple solutions, such as the bank's chat bot, which has significantly reduced response times and improved the quality of answers for clients, and an employee assistant tool that utilizes natural language conversations and solution searches. We will also build a customer service claim solution that analyzes documents and supports agents and lawyers in proposing the right responses, reducing processing time, and assisting specialized teams. This will help CaixaBank reinvent with GenAI.

And we are creating real value from GenAI across industries and countries.

We are partnering with Vale, a Brazilian mining and logistics company, to transform its environmental licensing program, speeding up permit applications and expanding its sustainability goals. We created Smart Licensing, an end-to-end licensing management platform that uses GenAI to scan application materials and environmental studies to promote compliance with regulatory and environmental requirements. This creates actionable summaries reducing internal document reviews from days to minutes. We've trained over 500 people to use Smart Licensing and established a change management team to combine

previously segmented teams, helping Vale plan and execute more efficiently while further reducing environmental impact.

We are partnering with Indosat, a Digital Telecommunications Company and its subsidiary, Lintasarta, a leading provider of data communication, Internet, and IT services to launch Indonesia's first sovereign AI cloud platform. This will accelerate their AI-driven digital transformation and support the country's vision of becoming a digitally empowered nation by 2045. The collaboration will initially focus on AI solutions for Indonesia's financial services sector, one of the key pillars of the country's economy. Accenture's AI refinery platform will provide scaled AI capabilities with pre-built solutions that have a modular architecture to meet clients' needs wherever they are in their AI journey, significantly reducing time to value. This partnership will help Indonesian companies to drive reinvention by harnessing the power of scaled GenAI, propelling innovation, operational efficiency, and sustainable growth in a competitive market.

Talent continues to be at the top of the agenda for CEOs and governments, and our LearnVantage services position us to be able to help clients invest in their workforce.

Our partnership with S&P Global, a leading provider of financial data analytics and ratings, is driving GenAI innovation across the financial services industry, empowering their workforce to adopt GenAI at scale to enhance productivity and deliver revenue growth. They are equipping nearly 40,000 of their employees with the necessary skills, leveraging Accenture LearnVantage Services, a comprehensive GenAI learning program. This program includes curated and customized content to drive AI fluency and address the industry's evolving talent requirements.

Finally, a quick look at how we're continually using our investments in acquisitions to drive our future growth.

To continue to scale LearnVantage, we acquired award solutions in the U.S., which expands our learning offerings tailored to the unique needs of the network leaders, network operations and performance engineers, and IT professionals in the telecom space.

To enable us to scale faster in health, a \$70 billion addressable market growing approximately 6%, we acquired Consus.Health, a leading German healthcare management consultancy. Health is an industry still early in digitalization, and our investments are positioning us for the continued growth we see over the next several years.

And supply chain continues to be early in digitalization, and we are investing to continue to drive growth. This quarter, we acquired Camelot, an international SAP-focused management and technology consulting firm from Germany with specific strengths in supply chain, data and analytics, and Joshua Tree Group in the U.S., a supply chain consulting firm specializing in distribution center performance.

Back to you, Angie.

Angie Park

Thanks, Julie.

Now, let me turn to our business outlook.

For the second quarter of fiscal 2025, we expect revenues to be in the range of \$16.2 billion to \$16.8 billion. This assumes the impact of FX will be about negative 2.5% compared to the second quarter of fiscal 2024 and reflects an estimated 5% to 9% growth in local currency.

For the full fiscal year 2025...

Based upon how the rates have been trending over the last few weeks, we now assume the impact of FX on our results in U.S. Dollars will be approximately negative 0.5% compared to fiscal 2024.

For the full fiscal 2025, we now expect our revenue to be in the range of 4% to 7% growth in local currency over fiscal 2024, which includes an inorganic contribution of a bit more than 3%, which we expect will be about 4% in the first half and about 2% in the second half. And we continue to expect to invest about \$3 billion in acquisitions this fiscal year.

For operating margin, we continue to expect fiscal year 2025 to be 15.6% to 15.8%, a 10 to 30 basis point expansion over adjusted fiscal 2024 results.

We continue to expect our annual effective tax rate to be in the range of 22.5% to 24.5%. This compares to an adjusted effective tax rate of 23.6% in fiscal 2024.

We now expect our full year diluted earnings per share for fiscal 2025 to be in the range of \$12.43 to \$12.79 or 4% to 7% growth over adjusted fiscal 2024 results, reflecting the raise in our revenue outlook and adjusting for the revised FX assumption.

For the full fiscal '25, we continue to expect operating cash flow to be in the range of \$9.4 billion to \$10.1 billion, property and equipment additions to be approximately \$600 million and free cash flow to be in the range of \$8.8 billion to \$9.5 billion. Our free cash flow guidance continues to reflect a free cash flow to net income ratio of 1.1 to 1.2.

Finally, we continue to expect to return at least \$8.3 billion through dividends and share repurchases, as we remain committed to returning a substantial portion of our cash to our shareholders.

With that, let's open it up so that we can take your questions.

Katie

Katie O'Connor

Thanks, Angie.

I would ask that you each keep to one question and a follow-up to allow as many participants as possible to ask a question.

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

QUESTIONS AND ANSWERS

Tien-Tsin Huang, JPMorgan

Thank you, good morning. It's really encouraging to see the revenue come in here above the guidance range. I think it's the widest margin in nearly two years. Julie, you said that the demand environment is more or less the same. So I'm curious what you attribute this new pattern to and if market conditions are maybe improving underneath here. Any comments?

Julie Sweet

Thanks, Tien-Tsin. This is the strategy that we've been outlining for the last few quarters, where last year, when we saw the constrained spending, particularly on the smaller deals, we pivoted to really focusing on winning more reinvention partners of choice, so increasing the number of our deals that were over \$100 million in a quarter. You'll remember last year, we actually had 125 of those. And the idea was to increase, to go after the demand, which is in the larger reinventions, and that would position us to get back to strong growth in '25 as those deals begin to layer in.

And so what you're seeing is the result of, what we're really proud of was quite a bit of agility last year, that when the market changed, we changed, because as you know, these are not easy deals to do quickly. And we quickly pivoted last year, we went after the demand and then put ourselves in this position. And that's why we did underscore that the market environment has not changed. This is the result of the strategy we executed, which we're uniquely able to do because we have all the skills and capabilities, we have the mix of consulting and managed services.

And so this is what we were talking about last quarter when we said we are going to get back to strong growth based on execution of this strategy. And of course, these are super critical, strategic programs. And so when spending does come back and the market does improve, we're at the heart of our clients' business, and we should be well capitalized to pick up on that spending.

Tien-Tsin Huang, JPMorgan

Yes. No, the last point is important, when the short-term stuff comes back, hope you should see that pretty quickly as well on top of this. So good, thanks. And my follow up, just have to ask it, I get a lot of questions on the U.S. federal government and Accenture's exposure there. I think it's about 8% of revenue based on some of your annual report disclosures. So

just curious, given some of the change in administration and the discussion around efficiency, have your expectations? Or are you going to change your strategy here on the U.S. federal government side? Any comments there would be terrific. Thanks for the time.

Julie Sweet

Yes. Well, we're really excited because our core competencies in federal, right, are around driving efficiencies. They're around helping keep our country secure. We're working with the U.S. federal agency on securing critical infrastructure, right, and on changing citizen services. We work across very important agencies. And so we believe that we're super well positioned to continue to help the mission of the federal government to secure itself, to help citizens and to drive more efficiencies, which will be tied very much to cloud, data and AI.

And what really makes us uniquely positioned is that we believe that there is going to be an even greater appetite of taking commercial solutions to the federal government. And we are very uniquely positioned because we have strong government expertise, but we've got commercial and private sector solutions. We are the leader with every major ecosystem partner. And you saw that, I was talking today about the U.S. Air Force and what we are doing on the cloud modernization.

And our work is mission critical. I mean, the vast majority of what we do is mission critical to the federal government. So we see a real opportunity to continue to partner with the new administration as we've partnered with all administrations, and also with all of the leaders in the federal government who every day are waking up to really drive those key things. So really, really feel good about where we are positioned in the federal government to help this agenda.

Tien-Tsin Huang, JPMorgan

Awesome, thank you.

Jason Kupferberg, Bank of America

Good morning guys. Happy holidays. I know that last quarter, you indicated the high end of the initial revenue guide for this fiscal year did not require any material improvement in consulting. Just wondering if that's still the case as you're now raising the top end a little bit? Or are you now assuming any improvement in consulting since you're almost four months into the new fiscal year?

Angie Park

Yeah, Hi Jason. Good morning. And I'll take that. For us, with the raise to 4% to 7% for the full year, there's really no change in what we shared with you before, which is that at the top end of the range, we continue to see more of the same, whereas at the bottom of the range, we see a bit more -- we allow for a little bit more deterioration. So no change there.

Julie Sweet

Yes. And our over delivery, I mean, we're very pleased, obviously, with consulting and managed service growth this quarter. And these large deals came in a little bit better, which is how we overdelivered and are now raising the guidance.

Jason Kupferberg, Bank of America

Great to hear. And then I'm just looking at the net headcount adds cumulatively over the past two quarters. I think we're almost 50,000. That was a pretty big step up from what the prior trend looked like. So can you give us any sense of how much of that was from acquisitions versus organic? And I guess is there any reason to not look at this accelerated hiring as kind of a bullish indicator?

Angie Park

So let me take that question. And as it relates to the net people adds that we had in Q1. So we did add about 24,000 people in the first quarter, which is really reflective of the momentum that we see in our business. And managing supply and demand is a core competency of ours. And what you see is the continued high utilization rates at around 90%. Looking ahead, we'll continue to hire for the demand that we see and the skills that we need. And I'll give you a little bit more context that the hiring that we saw this quarter, similar to last was that it was concentrated in India.

Julie Sweet

Yes. And I would just say that underlying our guidance, you are seeing organic momentum, right? So at the high-end of our guidance, for the year, we are going to exit at -- the range of organic growth in our guidance is 1 to 4, right? So I think that is -- it is a positive sign that we're hiring and some of it is coming from acquisitions, but we are seeing organic momentum in our business.

Jason Kupferberg, Bank of America

Thanks for the comments.

Bryan Keane, Deutsche Bank

Hi guys. Congrats on the solid results. And Happy holidays. Kind of asking the guidance question a little bit differently. The 4% to 7% constant currency revenue guide for the fiscal year 2025, is a touch below just the first quarter number of 8% on a constant currency basis. So just trying to think about if there is any reason why the growth would decelerate off the first quarter level as we get more into fiscal year 2025?

Angie Park

Hi, Bryan, happy holidays to you as well. Let me give you -- here's how we were thinking about our guidance for the full year and the raise to 4% to 7%. If you think about where we are, we had a strong start in Q1. We have strong guidance in Q2, which was really driven -- it was broad-based and driven by our organic growth. At the same time, you heard Julie say, the macro remains the same. There's no change in the overall environment.

And I want to reinforce importantly what I said earlier, which was we do expect -- we continue to expect inorganic contribution of about -- of a bit over 3%. And one of the things that we provided to you was how that will come in. So H1, we expect somewhere around about 4%, second half about 2%, and that will give you more of an understanding of how we see organic playing out for the year. And we will continue to see organic throughout this fiscal year. And then as it relates to -- if you think about it, we're one quarter in. We've got one quarter under our belt. We've got three more to go. And as Julie said earlier, we're executing on our strategy, and you can count on us to continue to do so.

Bryan Keane, Deutsche Bank

Got it. Got it. That's helpful. And then maybe you guys could just talk a little bit about the industry group, the Financial Services. A lot of times, that kind of leads out of economic slowdowns. But it sounds like Banking & Capital Markets was a little bit softer, but there are some other areas of strength and just trying to figure out where that is in the industry right now because we're kind of getting mixed messages from some of the other IT service providers. Thanks so much.

Julie Sweet

Yes. So I think it's a little bit different by market, right? So we are seeing the results a bit different by market. I will say, by the way, that we were pleased to see the U.K., as you might have heard, is coming back as we reposition the U.K. But with the dynamics in the U.S. market where it is a little bit better, in EMEA, it was a little bit worse, and you've got a mixed picture on the interest rates, what the expectations are.

And so I'd say that is probably not a surprise. Yesterday, probably complicated that a little bit in the U.S., right? And so on the one hand, we are seeing a lot of interest, for example, in Banking & Capital Markets on things like GenAI. On the other hand, there is a lot that's being kind of processed with what's going to happen with interest rates and that. And so we see, obviously, it is getting better, but it is a mixed picture by region.

Angie Park

Yes. And just as a reminder, Bryan, as we look at Financial Services overall, we exited Q4 last year with a minus 2%, and we saw the uptick in the first quarter at 4% globally which

reflects the dynamics that Julie was just describing, which really plays to our strength, as you think about the diversity of our business across markets and industries.

Bryan Keane, Deutsche Bank

Great. Thanks again.

Darrin Peller, Wolfe Research

Guys, thanks. Great results. Could we just touch on your potential for visibility this year into budgets and the timing you'd expect again? I know I think earlier this year, it was generally in the January, February time frame, which had moved back up a little bit. But do you still anticipate that kind of visibility at that part of the year? Or we could get a better picture on whether discretionary is really going to pick up or not? And then maybe just as a dovetail on that, maybe just conversations you are having right now around AI for next year. Obviously, the bookings keep looking really strong for you guys, which is great. Any more specifics on where you are seeing it incrementally improve? Thanks guys.

Julie Sweet

Yes. So a great understanding of Accenture. January, February is where we really see what the client budgets are going to be looking at. So that's where we get the most visibility. And so we'll be reporting more on that in the next quarter. So you're absolutely right, we do anticipate getting that visibility in January, February. And then with respect to AI, we are continuing to see in our conversations, and I probably talked to 30 CEOs in the last 2 months, right? So spent a lot of time, and also around the world. So it's been a busy travel quarter. I've been in Europe, I've been in Southeast Asia, Australia, the U.S.

And pretty consistently, clients are seeking to do more in AI, but they are in such different places. I mean I'll be with one bank where we're talking about what is GenAI, AI, why does it matter? And the fact that they are not yet in the cloud. And I'll be talking to another bank where they've been fully in the cloud and they want to be the first out to use GenAI.

And so I think it is hard to generalize. You are still seeing that because the overall spending environment is the same, that those who really want to go into AI are more prioritizing spending as opposed to spending more, right? Where we see the biggest opportunity when companies start to get more confident to spend more is going to be and moving faster with their data foundation that fuels AI, and then AI. But right now it still generally feels more like a prioritization within current budgets. And so we'll see what happens in January and February. And that's why our strategy has been to pivot there, right? So to go after more than our fair share of those budgets.

Darrin Peller, Wolfe Research

All right. That's really helpful. And then just when we look at the opportunity for where you're hiring, you mentioned India, but we've heard a lot of customers are starting to think about a little bit even more onshore. And so just maybe talk a little bit more about the mix again. It had gone for a while more offshore looking for better price optimization. But where are we on that right now? Are you seeing any evidence of a shift back to nearshore, onshore? Thanks again guys. Great job.

Julie Sweet

No big trend. What I'd say is we focus on the G2000. So a lot of our companies are global. And so they really are looking for optimization of right skills because a big piece of why people, for example, use India is about skills, right? 10 years ago, it was about labor arbitrage, right? Today, it is about like the ability to get these skills at scale. What I would say is that we, at Accenture, are continuing to develop more because in some cases, it is language, right, as you're kind of doing more transformation, new parts of the enterprise where you want maybe language skills or time zones.

So we have a global network with 100 centers around the world. In the U.S., for example, we've been opening some new centers in underserved environments. We just opened a center in the Bronx recently. But all of it is kind of aimed at being very sophisticated, and we see ourselves as part of the integrated talent strategy of our clients. And it's like right skills, right time zone, right price, continues to be the guiding, with I would say an emphasis on skills.

Darrin Peller, Wolfe Research

Great. Thanks Julie, thanks Angie.

Jim Schneider, Goldman Sachs

Good morning. Thanks for taking my question. Julie, understand that in your outlook, you're not really seeing any differences on the macro side in your outlook, like, sort of idiosyncratic growth. But can you maybe discuss a little bit about when you talk with clients, what's the sort of range of outcomes for discretionary increases in the 2025 budget outlook? And how big a factor is rates specifically as a macro impact when they're thinking about that? And do you think that changes materially given the Fed message yesterday?

Julie Sweet

The rates definitely depend on industry, right? So if you're a more capital-intensive industry or you're an industry that wants to grow more in acquisitions, the rates -- there's lots of puts and takes in doing the range. And I think it's just too early based on yesterday, there's been a lot of speculation. I mean our business is very much focused on like when there's change, and it doesn't matter what the change is, good or bad change, that's where we really partner with our clients successfully because if they've now got new constraints because the rates

are higher, then they want more opportunity to cut costs. If the rates are going to fuel things like capital projects, we've got our capital projects business, right?

So what we focus on, and I think what we are so successful with is we have these deep relationships with our clients. Our top 100, we've been them over 10 years. We understand them. And we are always looking at this and saying, okay, what does that mean, anticipating where we are helping. So whatever the change is, that's where Accenture really can help them pivot. And it's part of our strength that we're so relevant to both growth and cost.

Jim Schneider, Goldman Sachs

That's helpful. Thank you. And then with respect to the AI work, you talked about some of the context of the client conversations you're having. But quantitatively, are you seeing any kind of major changes in terms of the size and scope of the individual projects? And what are clients saying about sort of their pivot or when they might pivot to sort of larger, more transformative projects within GenAI?

Julie Sweet

Yes. We are already starting to see that, right? We are starting to see the clients, and the characteristics are pretty clear. If you have a client that's been investing in their digital core, including security and data for many years, and we have many of those that we've helped, they're now able to start to scale, and we are starting to do that, and we're seeing those partnerships. Where you have clients where we've been helping them prove it and maybe scale in a part of the business, but they really haven't got their data foundation or they're not moving into the cloud, then what they're working with us on is how do we accelerate that. And what you probably heard as we were talking through some of the examples today is that there's a lot of data foundation now being built along with getting into modern cloud platforms. And so we are seeing an acceleration of the data work, which is absolutely fundamental to using GenAI.

Jim Schneider, Goldman Sachs

Thank you.

Dave Koning, Baird

Yeah, hi guys. Great job. And I guess my question, just on the fiscal Q2 guide. Historically, Q2 has been a pretty flat sequential quarter. And you are guiding, I believe to down about \$1 billion to \$1.5 billion sequentially this quarter. I know a little of that may be a few hundred million FX, I get that. But was there anything in Q1 that's kind of naturally falling off in Q2 this year, that's a little unnatural, or some sequential pattern that's a little different?

Angie Park

Yes, David, happy holidays and good morning. As we think about our Q2 guide of 5% to 9%, it's a very solid guide, based upon what we see. And there's nothing unique in Q2 that I would call out. And in fact, just anchoring back to our over delivery that we saw in the first quarter was really a function of the larger deals coming online a bit better than we expected, and we continue to see that, which gave us confidence in driving -- in raising our guidance for the full year. So nothing to call out for Q2.

Dave Koning, Baird

Got you. Yes. You definitely crushed Q1. And then, I guess, one just a nerdy kind of financial question, but now that you fully have like the debt in place, should we think about a sequential pickup in interest expense? I think it was \$30 million in Q1. Does that go to like \$50 million in Q2 or something like that?

Angie Park

Yes. Different than giving you the specific numbers in terms of how to think about it, yes that is correct because there are certain things, of course, that we see in our income below operations. And what you saw there was the net interest income was lower as a result of we did have average lower cash balances, also lower interest rates. And then we also had the interest expense from our long-term debt. But all of that has been factored in the guidance that we've given and so it's in there.

Dave Koning, Baird

Gotcha. Thanks guys. Great job.

James Faucette, Morgan Stanley

Great. Thank you very much. I want to just quickly ask a follow-up on capital structure and allocation. It sounds like you are still quite committed to pursuing both acquisitions, as well as capital return. Last year, we looked at -- we did some essentially debt raise to help fund those priorities. Where are we at from that perspective? Or do you feel like we're in a pretty good overall cash position and continue to be able to do that? Or should we expect that at some point, at least over the next couple of years, we can see further increases in debt and debt raising to fund the capital allocation priorities?

Angie Park

Yes. Hi James. Nice to talk to you. Why don't I start. We were pleased to execute our inaugural bond offering of \$5 billion, which we did in October. And when we step back, it was really a routine review of our capital structure where we tap the long-term debt market to increase our liquidity for general corporate accounting purposes, and what it does is, it ultimately, it optimizes our capital structure and reduces our cost of capital. That said, let me

just reinforce for you, there is no change to our capital allocation strategy, which also includes how we look at and use V&A.

Julie Sweet

And this year, we are going back to kind of more of a business as usual. We think it's going to be somewhere around \$3 billion. But as we've always said, if there is opportunities or not, we've got the balance sheet. So we could raise debt, but there's no strategy to increase debt. But we might, if we had the right opportunities. I mean, last year, we had a great opportunity to double down on strategic acquisitions, and it served us well as we've gone into this year. But this year, we are back to kind of standard around \$3 billion, which is kind of the right percentage. So we'll communicate as we go. We always have that flexibility. And I think that's the strength if you think about Accenture is having a strong balance sheet and to have the flexibility to go after opportunities in the market that drive long-term growth. And that's how we think about the decisions about whether or not to do debt or not.

James Faucette, Morgan Stanley

That's great color there. And then I wanted to ask about the consulting bookings, seeing nice growth and acceleration there. I know it is hard given the breadth of Accenture's customer base, but I'm wondering if you can help us maybe generalize what you're seeing in consulting bookings and if there's a change there? And I guess I'm wondering if we're seeing a focus on cost control versus potential revenue generation or new technology evaluation or how it folds into AI. Just any color you could provide on what the tenor of those consulting bookings look like right now?

Julie Sweet

Yes. So maybe just keep in mind that what we're generally bringing to our clients are multiservice solutions. So you might do, as we talked about, we're doing managed services in security, and that requires industry consulting as a part of it to make sure that we're doing all the work. A lot of the reinvention is a lot of process. So I think I would anchor on -- there are really two themes that at least -- when they come to us. They want cost efficiency. Every industry wants cost efficiency now, and they're looking for growth or other outcomes, speed to market.

You heard a lot -- when we talked about, like what we're doing with like CaixaBank, that was both speed to market, as well as efficiencies. And so that's one of the things that we focus on, and that really gives us -- it's our unique differentiation because we've got things like Song, that's everything about customer, and we can put to that. We understand the industry. So the twin themes here are cost efficiency and growth.

James Faucette, Morgan Stanley

Great. Thank you so much.

Keith Bachman, BMO Capital Markets

Hi, good morning. Many thanks and happy holidays to everyone. My first question I wanted to ask is around pricing dynamics. And you've indicated that the macro backdrop is fairly steady. You're gaining share through skills, and I wanted to ask specifically about some of the legacy areas such as application maintenance, maybe the BPO work. One of your competitors suggested that pricing is pretty challenging because there aren't enough deals and a lot of folks chasing those deals, but could you specifically address what you're seeing as pricing dynamics during the quarter? Any changes?

Julie Sweet

It's a very competitive market, which is what we've been saying every quarter and we did see lower pricing across the business, which has been pretty consistent. What I would say is, that, which makes sense, right you're in a constrained -- as we said, the clients have constrained spending, particularly on small deals and so you'd expect it to be constrained. What I would say, though that AMS, Application Managed Services, is not legacy if you do it the way we do it, right? So what we offer to our clients is we have the talent, the full-stack engineers, the GenAI, we have a platform called GenWizard. And so clients are coming to us not to say, hey, can you take off my old applications. They're coming on us to modernize while taking costs down. And you see that in the work we're doing, it's very advanced in how we are doing it. So we basically call it 'run to the new', right? It's like have us help you run your applications in order to rotate to the new. So we see this as a critical way that we are at the heart of their business in modernizing their digital core. It's not legacy. Same thing with our operations business.

Keith Bachman, BMO Capital Markets

Yes. Okay. That makes a ton of sense. Thank you Julie. My follow-up question is, some of our recent discussions, and to be fair, with software companies, have suggested that Europe's softened in the last 30, 45 days which makes sense, if you just read the newspapers about what's going on in Europe. But have you guys seen any change in the dynamics underpinning Europe and/or change in the perspective that you may have as it relates to European demand over the next 12 months? And that's it for me. And many thanks again, and happy holidays.

Julie Sweet

Thanks. So our view of European demand is, over the next 12 months, is baked into the rise within, our guidance, right? And we are all reading the same papers. Europe is definitely more - Middle East is obviously different - Europe is definitely in a more challenging environment. And you see that with our growth rate is there on a relative basis as well. But we feel very good about, we have an excellent business in EMEA. We are very relevant to our

clients. And so we feel good about our demand environment, and that's fully reflected in the raise in guidance that we just gave you. Thank you. Can we have the next question?

Katie O'Connor

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

Operator

Absolutely. And our final question comes from Bryan Bergin with TD Cowen. Please go ahead.

Bryan Bergin, TD Cowen

Hey, guys. Good morning. Happy holidays. I wanted to ask on the service lines here. Can you comment on performance across Strategy & Consulting, Tech Services and Operations?

Julie Sweet

Yes. All very -- all strong this quarter.

Angie Park

Yes. Bryan, the thing that I would add to that is we did see broad-based growth. And if you look at it from a consulting and a managed services type of work perspective, we had mid-single-digit growth in consulting and 11% growth in managed services. And as you think about the rate that we have for the year, which is 4% to 7% underneath that, we see consulting now in the mid-single digit range growth and managed services in the mid-to-high range growth.

Bryan Bergin, TD Cowen

Okay. And then a follow-up here on the workforce and contract profitability. So you noted the most headcount was added across India. Can you just comment on what you're seeing there as far as wage inflation dynamics, just given most services companies and GCCs have been leaning in, and particularly amid the competitive pricing environment? Just talk about the levers you have here to mitigate gross margin pressure.

Angie Park

Yes, I'll start, Bryan. No real change in terms of the market dynamics of what we see reflected around wage inflation. And of course, we are always paying market relevant pay based upon the skills and the locations of our people. And we continue to see that the same, and then as it relates to pricing, as Julie mentioned, it continues to be highly competitive. At the same time, as you know of us, right, we are managing that. We're focused on pricing as

well as on our differentiation, and we're focused on cost and delivery efficiencies in our business and how we operate.

Bryan Bergin, TD Cowen

All right. Understood. Happy holidays.

Angie Park

Thank you Bryan.

CONCLUSION

Julie Sweet

Good, happy holidays. Well, in closing, I want to thank all of our shareholders for your continued trust and support and all of our people for what you do every single day. I wish everyone a very happy and healthy holiday season. Thank you for joining us today, and we look forward to being back here in a quarter. So thanks, everyone.

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