

## Q2 2016 Accenture PLC Earnings Call - Final

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### **Body**

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Accenture - Managing Director & Head of IR

\* Pierre Nanterme

Accenture - Chairman & CEO

\* David Rowland

Accenture - CFO

#### Conference Call Participants

\* Tien-Tsin Huang

JPMorgan - Analyst

\* Brian Essex

Morgan Stanley - Analyst

\* Ashwin Shirvaikar

Citigroup - Analyst

\* Bryan Keane

Deutsche Bank - Analyst

\* Darrin Peller

Barclays Capital - Analyst

\* Dan Perlin

RBC Capital Markets - Analyst

\* Lisa Ellis

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Sanford C. Bernstein & Co. - Analyst

\* Edward Caso

Wells Fargo Securities, LLC - Analyst

Presentation

OPERATOR: Ladies and gentlemen, thank you for standing by. Welcome to Accenture's second-quarter FY16 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Managing Director, Head of Investor Relations, Ms. KC McClure. Please, go ahead.

KC MCCLURE, MANAGING DIRECTOR & HEAD OF IR, ACCENTURE: Thank you, Greg. Thanks for everyone for joining us today on our second-quarter FY16 earnings announcement. As Greg just mentioned, I'm KC McClure, Managing Director, Head of Investor Relations. With me today are Pierre Nanterme, our Chairman and Chief Executive Officer and David Rowland, our Chief Financial Officer. We hope you've had an opportunity to review the news release issued a short time ago.

Let me quickly outline the agenda for today's call. Pierre will begin with an overview of our results. David will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for the second quarter. Pierre will then provide a brief update on our market position before David provides our business outlook for the third-quarter and full FY16. We will then take your questions before Pierre provides a wrap-up at the end of the call.

As a reminder, when we discuss revenues during today's call, we're talking about revenues before reimbursements or net revenues. Some of the materials we 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 risk 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. As always Accenture assumes no obligation to update the information presented on this call.

Now, let me turn the call over to Pierre.

PIERRE NANTERME, CHAIRMAN & CEO, ACCENTURE: Thank you, KC. Thanks everyone for joining us today. We delivered very strong financial results for the second quarter. I'm extremely pleased with the momentum we have created in our business over the last eight quarters. This quarter, our growth was, again, broad based across the different dimensions of our business. Our strategies clearly resonating with the needs of our clients and differentiating Accenture in the marketplace, enabling us to gain significant market share.

Here are a few highlights from the quarter. We delivered outstanding new bookings of \$9.5 billion. We grew revenues 12% in local currency, a very strong performance including double-digit growth in four of our five operating groups and all three geographic regions. Operating margin was 13.7%, an expansion of 10 basis points. We delivered outstanding earnings per share of \$1.34 on an adjusted basis, a 24% increase. We generated free cash flow of \$169 million. We continue to return a substantial amount of cash to shareholders through share repurchases and dividends.

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Today, we announced a semi-annual cash dividend of \$1.10 per share, which will bring total dividend payments for the year to \$2.20 per share, an 8% increase over last year. So with the first half of the year behind us, I feel very good about our business and how we are positioned for the year. Based on our strong performance, we are raising our business outlook for both revenues and earnings per share for the year.

Now, let me hand over to David. David, over to you.

DAVID ROWLAND, CFO, ACCENTURE: Thank you, Pierre. Thanks all of you for joining us on today's call. Let me start by saying that we were very pleased with our outstanding financial results from the second quarter. Once again, our results this quarter reflect continued strong momentum across almost every dimension of our business, reflecting the strength of our leadership position in the market and the relevance of our offerings and capabilities to our clients.

Before I get into the details, let me summarize some of the important highlights from this quarter. Strong local currency growth of 12% represents the sixth consecutive quarter of double-digit growth, which is even more impressive when you consider that Q2 of last year grew 12% as well. The overriding theme of broad-based growth was evident again this quarter with four of our operating groups in all three geographic areas posting strong double-digit growth.

Our growing leadership position in digital-related services continued to serve us well and combined with cloud-related services and security, we continue to be the partner of choice in helping our clients rotate to the NAV. Operating margin of 13.7% reflects 10 basis points expansion, within our annual guided range. Our profitability continues to reflect the absorption of significant investments in our people and in our business as we further strengthen our leadership position in the market.

The combination of strong revenue growth, expansion in our margin and tax-rate efficiencies resulted in 24% EPS growth for the quarter and 11% EPS growth year to date, excluding the gain on sale of Navitaire, which I'll describe in more detail shortly. Free cash flow of \$169 million came in as expected and keeps us on a trajectory to deliver our annual guidance range, which reflects free cash flow in excess of net income for the full year.

Importantly, we continued to invest at scale in our business, closing five acquisitions in the quarter with year-to-date invested capital of approximately \$750 million. So we're very pleased with our results, which continue to demonstrate our ability to successfully deliver on our three imperatives for driving shareholder value: durable revenue growth; sustainable margin expansion; and strong cash flow with disciplined capital allocation.

With that said, let's now turn to some of the details for the quarter. As expected, we delivered a higher level of new bookings this quarter at \$9.5 billion, including an all-time record high consulting bookings. Consulting bookings were \$5 billion with a book-to-bill of 1.2. Outsourcing bookings were \$4.5 billion also with a book-to-bill of 1.2 and consistent with our target. We're particularly pleased with the strong and balanced demand across all of our business dimensions, which is best illustrated by our estimated book-to-bills.

Consulting and strategy had a combined book-to-bill of 1.1, application services a book-to-bill of 1.2, and operations a book-to-bill of 1.3. Across the board, digital-related services continued to be a significant driver of our new bookings. Finally, we are pleased that we had 10 clients with bookings in excess of \$100 million, which again points to the strength of our client relationships and their trust in our ability to drive their most important initiatives.

So turning now to revenue. Net revenues for the quarter were \$7.95 billion, a 6% increase in USD and 12% in local currency reflecting a negative 6% foreign exchange impact. Our Q2 revenues were higher than our guided range, primarily due to consulting demand being even stronger than expected across many of our operating groups and geographic markets. Consulting revenues for the quarter were \$4.3 billion, up 12% in USD and 18% in local currency. Our outsourcing revenues were \$3.7 billion, flat in USD and an increase of 6% in local currency.

Looking broadly at drivers of revenue growth for the quarter, we had strong and balanced estimated growth across all business dimensions. Digital-related services continued to be the dominant theme with growth above 25%, which

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once again fueled double-digit growth in our strategy and consulting services combined. Operations returned to double-digit growth. We saw an uptick in application services to high single-digit growth.

Taking a closer look at our operating groups. HNPS grew 15% in the quarter with very strong double-digit growth in both health and public service and overall in North America and the growth markets. Products delivered broad-based growth of 14% and continued to be led by our industrial and life sciences industries, with very strong overall growth in Europe and the growth markets. Communications, meeting and technology grew 13% in quarter led by double-digit growth in North America and the growth markets, as well as electronics and high tech and media and entertainment globally.

Financial services momentum continued with 13% growth led by very strong double-digit growth in banking and capital markets, as well as strong growth across all three geographies. Finally, resources delivered 4% growth led by continued strong double-digit growth in utilities, as well as strong overall growth in North America and Europe. We continued to navigate cyclical headwinds in energy and in chemicals and natural resources, where growth is significantly challenged. At the same time, looking at resources overall, we feel that we are more than holding our own in a very difficult environment.

Moving down the income statement, gross margin for the quarter was 29.8% compared to 29.9% in the same period last year. Our sales and marketing expense for the quarter was 10.5% compared to 10.7% for the same quarter last year, down 20 basis points. General and administrative expense was 5.7%, up 10 basis points from the second quarter last year. Operating income was \$1.1 billion in the second quarter, reflecting a 13.7% operating margin, up 10 basis points compared with Q2 last year. In the second quarter, as part of launching an important partnership with Amadeus, we closed our Navitaire transaction, which lowered our Q2 tax rate by 1.7%, increased net income by \$495 million and increased diluted earnings per share by \$0.74.

The following comparisons exclude this impact and reflect adjusted results. Our adjusted effective tax rate for the quarter was 15.4% compared with an effective tax rate of 26% for the second quarter last year. The effective tax rate for the second quarter of FY16 benefited from a final determination of prior-year tax liabilities, as well as changes in the geographic distribution of earnings. Net income on an adjusted basis was \$905 million for the second quarter, compared with net income of \$743 million for the same quarter last year. Adjusted diluted earnings per share were \$1.34 compared with EPS of \$1.08 in the second quarter last year. This reflects a 24% year-over-year increase of which \$0.17 or 16% came from the lower tax rate.

Turning to DSOs, our days services outstanding were 39 days compared to 41 days last quarter and 35 days in the second quarter of last year. Free cash flow for the quarter was \$169 million, resulting from cash generated by operating activities of \$317 million, net of property and equipment additions of \$148 million.

Moving to our level of cash: our cash balance at February 29 was \$3 billion compared with \$4.4 billion at August 31.

Turning to some other key operational metrics, we ended the quarter with a global head count of about 373,000 people, which was roughly flat with Q1 and up 15% compared to Q2 of last year. We now have approximately 273,000 people in our global delivery network. Our utilization in Q2 was 90% consistent with last quarter. Attrition, which excludes involuntary terminations, was 13% consistent with Q1 and down 1% compared to the same period last year.

With regards to our ongoing objectives to return cash to shareholders. In the second quarter, we repurchased or redeemed 8.1 million shares for \$829 million at an average price of \$102.14 per share. At February 29, we had approximately \$6.4 billion of share repurchase authority remaining. As Pierre just mentioned, our Board of Directors declared a dividend of \$1.10 per share, representing an 8% increase over the dividend we paid in May last year. This dividend will be paid on May 13, 2016.

Finally, before I close, let me mention that our Board has approved a decision to terminate our US pension plan, which will reduce future risk and administrative costs to Accenture. This is subject to regulatory approvals and is not expected to be finalized for 12 to 18 months. Upon final settlement, we expect to record a principally non-cash settlement charge of approximately \$350 million.

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So, at the half-way point in the FY, we've delivered very strong results and feel that we're well positioned for the remainder of the year. Our results continued to demonstrate the durability of our growth, profitability and cash flows and our ability to manage our business to deliver value for all of our stakeholders.

Now, let me turn it back to Pierre.

PIERRE NANTERME: Thank you, David. So looking at the first half of the FY16, our outstanding results demonstrate that we continue to execute very well against our growth strategy and that we are taking a leadership position in every part of our business. Year to date, we have delivered 11% revenue growth in local currency, which is well above the market growth rate. We continue to accelerate our rotation to the new, digital-cloud and security-related services, which together accounted for nearly 40% of our total revenues in the first half of the year and grew at a strong double-digit rate.

At the same time, we continued to see very strong performance across the rest of our business, which remains extremely competitive and is generating very good growth. Let me bring all of this to life with a few examples, beginning with how we are leveraging our innovative capabilities to help clients drive digital transformation.

Working with Boston Scientific, we have jointly developed a cloud-based digital health solution for hospitals, built on the Accenture Insights platform, the new solution is designed to leverage our analytics capabilities to significantly improve patient care and reduce treatment cost.

Accenture Interactive continues to gain traction in the marketplace and has recently been named the digital agency partner for Celebrity Cruises, where we are helping redesign the digital customer experience and for L'Oreal in Brazil, where we are responsible for search-engine optimization and digital marketing analytics.

In Accenture Mobility, we are using the Accenture connected platform to drive digital transformation for Metro de Madrid, one of the largest transportation systems in the world. We expect to increase operating efficiency, improve the passenger experience and enable new internet-of-things based services.

We continue to operate at the heart of our clients businesses with strong demand for our core capabilities. Given our industry expertise and end-to-end capabilities, we remain the partner of choice for the world's leading companies. In the US, Accenture Strategy is helping FirstEnergy improve competitiveness and operational agility, with a cash flow improvement program that is expected to deliver more than \$450 million in savings over three years.

We are working with a leading food company to transform its global operating model; an integrated team from Accenture Strategy, Accenture Consulting and Accenture Operations each providing process redesign as well as finance and accounting and at our business process services.

We continue to invest across our business to further enhance our capabilities and differentiation in the marketplace, including making nine acquisitions in the first half of the year. In particular, we have made significant investment to strengthen our industry expertise in several key sectors.

In health, we acquired Sagacious Consultants, a leading provider in implementing electronic health record systems in the US. In financial services, we acquired Beacon Consulting, based in Boston, to expand our capabilities in asset management. We acquired Formicary, the leading provider of systems integration and technology consulting for trading platforms in the UK, US and Canada.

Also in financial services, we created a specialized practice for Blockchain technology, which is expected to drive significant efficiency gains for financial institutions. To accelerate our speed to market, we invested in Digital Asset Holdings, a leading developer of Blockchain technologies. In resources, we acquired Schlumberger Business Consulting, the international management consulting arm of Schlumberger. And in North America, we acquired Cimation to expand our consulting digital and cyber security services for industrial asset management.

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Turning to the geographic dimension of our business. I'm very pleased with the strong and balanced growth we are driving across all three of our geographic regions. I am delighted that we delivered double-digit growth for the quarter, in many of our largest countries, including six which together comprise 70% of our total revenues.

In North America, we delivered 12% revenue growth, driven by another excellent quarter of strong double-digit growth in the United States. In Europe, we delivered exceptional results, with 14% growth in local currency. We delivered double-digit growth in the UK, Italy, Spain, Switzerland and Germany, as well as high single-digit growth in France. In growth markets, we delivered 10% revenue growth in local currency, led once again by strong double-digit growth in Japan but also generated double-digit growth in China and in India, as well as solid growth in Brazil, despite a very challenging environment.

Before I turn it back to David, I want to share a few thoughts on what it means to run Accenture as a high performance business. It is imperative that we attract, develop and inspire the very best talent in our industry. I am proud that for eight years in a row, Accenture has been named one of the FORTUNE Best Companies to Work For in the US. I am equally proud that in India, Accenture was ranked the top Company in our sector on Business Today's list of the Best Companies to Work For.

In our business, trust is everything. I couldn't be more pleased that for the ninth year in a row, Accenture was recognized on Ethisphere's list of the World's Most Ethical Companies. This is strong recognition of our commitment to ethical leadership and corporate social responsibilities. So, as you can see, every day, we're making Accenture an even better business partner for all of our stakeholders. We have very strong momentum in our business. We continue to deliver value into the marketplace.

With that, I will turn the call over to David to provide our updated business outlook. David, over to you.

DAVID ROWLAND: Thank you, Pierre. Let me now turn to our business outlook. For the third quarter of FY16, we expect revenues to be in the range of \$8.1 billion to \$8.35 billion. This assumes the impact of FX will be a negative 2.5% compared to the third quarter of FY15 and reflects an estimated 7% to 10% growth in local currency. For the full FY16, based upon how the rates have been trending over the last few weeks, we continue to assume the impact of FX on our results in US dollar will be negative 5% compared to FY15. For the full FY16, we now expect our revenues to be in the range of 8% to 10% growth in local currency over FY15.

For operating margin, we now expect FY16 to be 14.6% to 14.7%, a 10 to 20 basis point expansion over adjusted FY15 results. As I mentioned earlier, we closed our Navitaire transaction in the second quarter, which will lower the full-year FY16 tax rate by approximately 1.5% and increase diluted earnings per share by \$0.74. Our guidance for FY16 excludes the impact of this transaction. We now expect our adjusted annual effective tax rate to be in the range of 24% to 25%. For adjusted earnings per share, we now expect full-year diluted EPS for FY16 to be in the range of \$5.21 to \$5.32 or 8% to 10% growth over adjusted FY15 results.

Now turning to cash flow. For the full FY16, we continue to expect operating cash flow to be in the range of \$4.1 billion to \$4.4 billion, property and equipment additions to be approximately \$500 million and free cash flow to be in the range of \$3.6 billion to \$3.9 billion.

Finally, we continue to expect to return at least \$4 billion through dividends and share repurchases and also to continue to expect to reduce the weighted average diluted shares outstanding in the range of 1.5%, as we remain committed to returning a substantial portion of cash to our shareholders.

With that, let's open it up to questions. KC?

KC MCCLURE: Thanks, David. 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. Greg, would you provide instructions for those on the call, please?

Questions and Answers

OPERATOR: (Operator Instructions)

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Your first question comes from the line of Tien-Tsin Huang from JPMorgan.

TIEN-TSIN HUANG, ANALYST, JPMORGAN: Obviously a good quarter here, just wanted to dig in on the upside given the strong book-to-bill, we've had revenue \$200 million above guidance and it's usually a pretty tricky quarter. It doesn't sound like it's large deal-oriented either, so I'm curious, do you have resources to meet this demand, especially given the strength in consulting? I'm asking because I want to gauge your confidence in executing against this momentum within your margin targets. So, I'll start with that question.

DAVID ROWLAND: Thanks. I'll just kind of start it and work through the points that you made is that we did have an even stronger quarter than we had expected, no doubt. As you alluded to -- in the mix is the fact that the second quarter can be a more difficult quarter to predict, which you know that well, as you know our Business well.

The reasons are that you have the holiday period in there, including the New Year period, which sometimes can be a little unpredictable in terms of how that impacts our available workdays, if you will. Then, of course, you have the turn to the new fiscal year, which can also create sometimes some temporary changes in buying patterns during that first month or two of the new calendar year.

In our case, neither of those things had an impact on us. To the contrary, the momentum that we've had now for many quarters continued and even built further. We saw that the upside relative to what we had expected was in our consulting and strategy services combined, or our consulting type of work, where we had expected double-digit growth but it came in even stronger than we had expected.

Tien-Tsin, we're very pleased that we were able to support that growth with essentially flat headcount versus quarter one, which we view as a very positive thing. So, as it relates to capacity, we certainly have a supply plan that supports the revenue growth that we've projected for the third quarter and the full year. We feel very good about our supply management. Our ability to access talent in the marketplace is as good as it's ever been.

TIEN-TSIN HUANG: Okay, great. Just my quick follow-up -- like I asked last quarter, inorganic contribution to revenue, and maybe margin? If you can, David, give it to us across consulting and outsourcing? Thank you.

DAVID ROWLAND: Right. So, the inorganic contribution continues to be in the range of about 2%. As I mentioned last quarter, if you look at it by type of work, it is bigger in consulting than it is in outsourcing. Consulting, last quarter, I said that it was about 4%. So, we continued in the second quarter, where it was more consultant-oriented than outsourcing-oriented.

Your margin question, Tien-Tsin, was what now?

TIEN-TSIN HUANG: Just the same question, related to impact to operating margins from the acquisitions, given the cost side of it?

DAVID ROWLAND: Well, I would tell you that -- maybe if I just answered it even in a broader way, the acquisitions are an important part of our investments, but they are not the only part of our investments. Our strategy is to expand our underlying margin at a much higher level than the 10 basis points we reported. Then we use that headroom to then fund what are higher levels of investments in our Business, which includes the impact of acquisitions.

So, let me just say that our underlying margin expansion was stronger than the 10 basis points because our investments continue to grow at a rate faster than revenue. That includes acquisitions, among other things.

TIEN-TSIN HUANG: Got it.

DAVID ROWLAND: So, great. Tien-Tsin, good luck to the Cavaliers the rest of the way.

TIEN-TSIN HUANG: [Go lose].

DAVID ROWLAND: All right. Thank you.

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OPERATOR: Your next question comes from the line of Brian Essex from Morgan Stanley.

BRIAN ESSEX, ANALYST, MORGAN STANLEY: I was wondering if I could ask a little bit more about consulting versus outsourcing mix? I guess what I'm referring to is, if you listen to vendors like salesforce.com on their call -- they talk about system integrators becoming ISVs. Then we hear Accenture talk about shifting deals towards more outcome-based pricing. Is there a way to think about the changes in bookings and revenue between outsourcing and consulting, particularly as we see the acceleration in consulting going forward?

DAVID ROWLAND: Well, I'll make a couple of comments, and Pierre may add as well. What I would say is that -- I mean, the basic answer to your question is, no, in the sense that what we've viewed as consulting is unchanged and obviously likewise the same is true for outsourcing.

What we see in consulting is probably a couple of things. One thing we see is that -- in fact, I guess I would say it this way: At the foundation of what's driving our consulting revenue growth is the depth of our industry expertise and the fact that we really operate not only at the heart of our clients but at the heart of our industries in terms of being on top of the most important trends and being able to help our clients respond to those trends. That draws in a lot of our consulting type services. So if you look at Accenture Strategy, Accenture Consulting, you look at Accenture Digital, that brings us right into the heart of the client's high-priority agenda because it's all grounded fundamentally in industry expertise.

The second thing that is driving our consulting growth is the fact that we are establishing ourselves as among the leaders, if not the leader, in the rotation to the new. When you look at consulting, it reflects -- it includes, by the way, systems integration services, which are included on our consulting type of work and our dimension reporting that are reflected in app services. But we have a lot of systems integration work over recent quarters associated with clients that are investing in and deploying new technology.

So, maybe I'd just stop there. But our consulting growth is really driven by the things that we've been highlighting, which are the priority areas that we're focused on in our growth strategy.

BRIAN ESSEX: Maybe if I could follow up on the digital growth -- it seems as though you're indicating a nice re-acceleration in growth there. Anything we can think about in terms of what's causing some of the variability in year-over-year growth rates that we've seen, particularly after a slight deceleration last quarter, then obviously re-accelerating this quarter? Is it still choppy growth off of lower numbers, or is there something else maybe seasonal at play there?

DAVID ROWLAND: I wouldn't read anything into -- I guess what I would focus on is that in both quarters the growth was north of 20% and then north of 25%. I wouldn't read too much into that.

I think our digital growth is going to continue to be consistently strong double digit. Within the context of strong double digit, you might have some fluctuation, but overall, the growth is outstanding. We couldn't be more pleased with not only digital but also the new when you look at the growth that we have in cloud-related services and security.

PIERRE NANTERME: No, this is absolutely right. This is the reason why, in my thoughts, reporting to you around the Business updates, I covered Q1 and Q2. All our Business -- our Business is not driven by quarterly activities.

We are selling, operating over a cycle, which is the case for these digital-related services. So, there is no point you should over-read the kind of quarterly results, and much more putting these results in the context of a much longer term. This is what we mentioned that we have for our seventh --

DAVID ROWLAND: Sixth consecutive --

PIERRE NANTERME: -- sixth consecutive quarters of double-digit growth. When you look at our digital rotation, how it's been double-digit growth for several quarters as well. So, what we are pleased with is the consistency and the duration of our growth in digital and overall Accenture, and not so much a quarterly situation.

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BRIAN ESSEX: Got it. Very helpful. Thank you. Nice results.

DAVID ROWLAND: Thank you, Brian.

PIERRE NANTERME: Thank you.

OPERATOR: Your next question comes from the line of Ashwin Shirvaikar from Citi.

ASHWIN SHIRVAIKAR, ANALYST, CITIGROUP: So, obviously very strong demand metrics as expected, so congratulations on that. My question is at the higher level of revenues and EPS is not driving a corresponding rise in cash flow. Why is that?

DAVID ROWLAND: As we've said before, there are a lot of things that impact our cash flow in a particular year. We have had a couple-a-day uptick in DSO. That impacts it. The timing of tax cash payments is an example from year to year can impact the cash flow.

Ashwin, what I really focus on is that our cash flow in the range that we provided -- our free cash flow continues to be at a level that is greater than net income. If you'll remember back to what I've started saying, three years ago, what I've really focused on is the durability of our business model in generating cash flow in excess of net income.

This year continues that trend. That's the mark of a -- that's a very distinctive mark for a very successful cash flow generating business. So, we're very pleased with our cash flow.

Also remember that the range that we give is \$300 million. So it's a fairly broad range, when you think about the fact that we've changed revenue, we didn't change cash flow. It is a broad range, but it's in excess of net income. That's really what we are focused on driving.

ASHWIN SHIRVAIKAR: Got it. Thank you. So, the second question really is: You had relative to the very strong consulting, a weaker level of outsourcing growth the last few quarters. You're not alone in this trend; several other companies are in the same boat. I wanted to ask how much of that weaker outsourcing planned, in relative terms, is volume versus pricing versus productivity gains because of higher levels of automation, things like that?

DAVID ROWLAND: Yes. We've not quantified it in those three buckets. It's a very smart question to ask, we just haven't quantified it in those three buckets. I don't think we're going to do it on the call, even if I had the numbers in front of me, which I don't.

What I'd tell you -- maybe sorry to state the obvious, but all three of those things are in the mix, no doubt about it. We are very pleased with progress that we are making on the automation front, in both app services and BPO as well.

There is no doubt that in the application maintenance piece of application services -- that is a highly competitive environment, which does impact the revenue yield per labor hour in that marketplace. But yet, it's also important to note, Ashwin, that if you look at pricing as we define it, which is the margin on the work that we're selling, our margin in that AO business is -- I'm talking about pricing -- is holding up quite well. So, we're managing the trajectory and revenue per head. We're managing our cost to serve and alignment are actually better than alignment with that trend.

Then we've also mentioned that in the market that we're in now, clients are somewhat universally trying to be more efficient in the cost of ownership of their existing application footprint, and why? They want to do that so that they can invest more in the new. So, we're seeing the benefit of that investment in our systems integration business, which is part of our consulting type of work growth. It's also part of the application services growth, which I mentioned was high-single digit.

So, all three of those things are in the mix. We're navigating them all.

ASHWIN SHIRVAIKAR: Impressive quarter. Thank you.

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DAVID ROWLAND: Thank you.

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

BRYAN KEANE, ANALYST, DEUTSCHE BANK: Health and banking and capital markets are sectors that some peers have called out some weakness. It doesn't look like Accenture is seeing that same weakness. So, I guess my question is: Where is, or why is Accenture seeing strength in banking and capital markets and health? What's the outlook there going forward?

PIERRE NANTERME: When you look at our different industries, we have -- just to set the scene -- we have now with 13 industry groupings we are reporting against. We're starting that at [the IA] Day. I'm pleased to report that 9 out of the 13 have enjoyed double-digit growth.

So, it's quite true across the board. So, what explaining in the [Russian world] is the same for health and for banking and capital market.

The growth of our Business, the growth of our countries and the growth of our industries is directly linked to the speed of the rotation to the new. It is as simple as this. Fact of the matter is that we invested in those digital-related services quite ahead of the curve, certainly at the right time. We've been lucky enough to execute this strategy at the right time. Now, all our industries including banking and capital market do benefit from this rotation to the new, again, digital-related services plus cloud-related services plus security-related services.

So, when I look at banking and capital market, a lot of what we do is around the new. I guess, if some of our competitors have lower growth, for me this is certainly the signal that their business is still too much associated to the kind of current core activities or let's call them classic activities, which might be under pressure, and their rotation to the new is certainly slower than what we are experiencing at Accenture.

BRYAN KEANE: Okay, that's helpful. Then just as a follow-up looking at the new guidance for FY16, I saw the raise in constant-currency revenue growth. But I think the operating margin was decreased about 10 basis points on the high end. Just curious on the reason for the change in operating margin guidance. Thanks. Congrats, by the way.

DAVID ROWLAND: Thank you very much, Bryan. So, first of all, our strategic objective is to land the fiscal year within that 10 to 30 [basis points]. So, that is what we're focused on. We balance multiple objectives in any given year, but within that target range.

So, this year, if you look at where we are on a year-to-date basis, and when we reflect not only on the investments that we've made year to date in our people and our Business, and we reflect on the investments that we want to continue to make in our people and our Business during the second half of the year, which are clearly in the best long-term interest of our shareholders and investors. The right balance between what we deliver and reported margin expansion this fiscal year and what we need to do to invest in our Business and people is 10 to 20 basis points this year.

So, it's within kind of that target range that we have. It just reflects the balance that we're making between delivering margin expansion, but at the same time continuing the very successful track record that we've had of investing in our Business and positioning those investments for future-year returns.

OPERATOR: Your next question comes from the line of Darrin Peller from Barclays.

DARRIN PELLER, ANALYST, BARCLAYS CAPITAL: Look, I just want to start off with the inorganic growth for a moment. Obviously, a number of deals have been coming on. I think you said 2% was the contribution, which is similar to what you said at your I/A Day. So, that's consistent. I wonder if, how much of these deals are really being dedicated towards this digital initiative that you've really been able to expand so well?

I guess bigger question is: Going forward, how much more do we need to keep doing on that front to enable Accenture to stay ahead of the curve on digital? Is inorganic going to become 3% or 4% of your growth rate in the next couple of years, in order to really maintain differentiation? If you can help us out with that?

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PIERRE NANTERME: Yes. On this question, if you look -- I think we reported that recently -- that's on all [in FY15] acquisitions, 70% of the all 38 acquisitions we made was digital-related.

DARRIN PELLER: Sure.

PIERRE NANTERME: The one which are not 100% digital-related being more around deep industry expertise, and I've been highlighting a few. Some we are making from an industry standpoint would cover both topics.

But let's say it's a strong 70%, and the other 30% will be more reinforcing our industry with niche acquisition, with extremely deep experts. So far, our planning is to continue with the trajectory we set. We communicated in a way which is very consistent in the range of deploying 20% to 30% of our free cash flow.

DAVID ROWLAND: Yes, \$900 million to \$1 billion this year.

PIERRE NANTERME: Yes, which is probably \$900 million to \$1 billion-ish in terms of cash flow being deployed in our acquisition. That would typically in our model account for [these] 2% contribution to our growth.

This is still our mindset. Now, if we have the opportunity to flex because there are great opportunities in front of us, we will remain flexible.

DARRIN PELLER: Okay. All right. I just wanted to figure out if these deals are a part of the impact on the free cash conversion we're seeing? You say it's still within the range, but I guess that's really what we're getting some questions on is just, as much as that's definitely enabled to drive you to differentiate yourself and grow well better than most of the industry, there's just some people asking about financial implications on the rest of the model. Maybe, Dave, if you could just -- I think Tien-Tsin -- there's a little bit of a follow-up to that question also.

DAVID ROWLAND: Again -- I would focus on -- by the way, it's not an inorganic -- I don't even want to say issue, because it's not an issue. The inorganic is not driving a notable impact on our cash generation.

Very simply, I would point to two things. Number one is that although we continue to have exceptional DSOs, they have ticked up, right? So, a day or two of DSO has an impact on our cash flow.

The second thing is just the timing of large -- tax cash payments is an example which can fluctuate. But if you look structurally at the -- at our cash flow model and what drives our cash, really fundamentally nothing's changed.

DARRIN PELLER: Okay. All right. That's helpful.

Just last follow-up on the resources side: It's been pretty impressive to us that you've been able to maintain growth at all in that area, just given the macro backdrop and across resources. So, in terms of trajectory, I know it's 4%. It's lower than the rest of the business, but again, for us, just seeing growth at all was pretty impressive. Should we expect to see that vertical continue?

PIERRE NANTERME: When you talk about resources, there are really two stories in resources. We are covering three industry segments. Of course, two of these industry segments are impacted with the overall natural resources and commodity pricing downturn.

The other one -- so I'm thinking about energy and what we are calling CNR or natural resources, and then you have utilities. In utilities, it is one of our fastest growing industry. It's about 20% growth in the quarter, just to set the scene publicly, because it's explaining as to why I can see your question.

You're positive with two industries, what's explaining that? What's explaining that is our resources leadership -- we don't gauge at the same time in two rotations if you will, to put it very simply. They are rotating to higher-growth and higher-potential industries.

Today, it's from energy to utilities, and then rotating this industry to the new. If you look at utilities, it is at the same time the 20% plus growth is significantly fueled by the rotation to the new.

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We need to mention that because some time we believe the rotation to the new is more for the business to consumer kind of industries, the banking, the insurance to come, the retail, the consumer goods and so forth. But at Accenture, the rotation to the new is big, even in the B2B business.

What we've been doing in utilities, especially providing superior services in terms of IOT, in terms of great management and bringing the digital at the heart of the utilities operation, each creating super normal growth for utility, balancing the downside. This is getting this opportunity to share with you that's why we like so much our diverse portfolio of business and diverse portfolio of industry, which is for us absolutely critical in our ability to continue delivering sustainable and predictable profitable growth.

DARRIN PELLER: All right. That's great color. Thanks, guys.

DAVID ROWLAND: Thank you.

OPERATOR: Your next question comes from the line of Dan Perlin from RBC Capital Markets.

DAN PERLIN, ANALYST, RBC CAPITAL MARKETS: Just a couple questions real quick -- on this consulting growth, it clearly continues to be impressive. I'm just wondering, to what extent if there is any that you feel like you're benefiting from some of this global M&A, not so much the M&A you've done but what companies are doing who represent your clients? You mentioned system integration work and investments in new technology, but I'm wondering if there's a lot of integration that's going on as a result of some of this other global M&A?

PIERRE NANTERME: Yes. The answer is yes. I guess indeed we had the opportunity to talk about it, but for these last couple of years, we said that you have two massive growth drivers in the marketplace, at the high level. One is the digitalization of the industries, which is huge, massive, pervasive everywhere, and coming together with what you're calling the rationalization of the operations. The rationalization of the portion, this is what's driving good growth in the rest of the Business, the non-digital specific business, in application outsourcing, in application services, in business process outsourcing, and that kind of services.

You're right that this last six or seven months, we've seen a third engine kicking in, which I will call consolidation, what you're calling M&A. So, we have digitalization, rationalization, and indeed we are adding consolidations, and we are given a very good position with Accenture Consulting operating at the heart of our clients' businesses and quite connected to the C-suite. We are a partner of choice in some of the major consolidation ongoing on the planet. So, we have the third engine kicking in, yes.

DAN PERLIN: That's fantastic. My follow-up -- in the past you've sized or given us a little bit more details around what -- how big now, at this point in the business, you have digital, and you have cloud and you have security. In the past, I feel like you've said somewhere around \$7 billion or something to that effect, relative to the legacy ERP, which is a constant question we get.

So, I'm wondering if you're willing to update us on that? If you are, are you just at a point now in that cycle where that digital agenda is just so much bigger, that it dwarfs this legacy tail that you would have had (inaudible) year? Thank you.

DAVID ROWLAND: Well, I think Pierre might have had in his script that if you look at the new, digital cloud and security, that is approaching 40% of our revenue. So, you can just do the math off of our revenue to get the dollars.

On the ERP, the ERP business continues to be under 20% of our total revenue. Now, I will say that we have seen some growth in the ERP space. So, we have always expected that -- ERP is fundamentally the technology backbone for how companies manage their business.

We never felt like the ERP business was going to go away. We always have anticipated a cycle where there would be investments in next generation ERP, and we're part of helping our clients move to next generation ERP. So, we are seeing some growth in ERP, and we're very pleased with our ERP business.

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PIERRE NANTERME: Maybe we are using -- or I'm using this sound wedge a lot, that it all about the rotation of the business, as we speak. I believe that the main difference between the winners and the losers is coming from the ones who are able to rotate to the high-growth areas and to rotate at speed.

When you look at ERP, as David just said, all our strategy in the down cycle was to start building capabilities to rotate our ERP to new ERPs. At the time, we were calling as administration building capabilities, strong capabilities with HANA, which is going to be the next generation and S-4 the next generation of ERP with SAP (inaudible) and guess what? As we speak, given the investment we made ahead of the HANA S-4 wave, today we are already the number one in implementing S-4 and HANA in the world. We see clearly and you've seen probably with the results of SAP, a pick-up on this new ERP development.

If you move beyond the strict definition of ERP to the broader definition of application packages, then it's even more spectacular in terms of Accenture positioning. We are enjoying good growth in all the application package, and especially with the new SaaS packages.

I'm very pleased with the growth we are entering with salesforce. I'm very pleased with the growth we have with [vogde], with Microsoft Dynamics and some other application package services. So, we benefit from having rotating our ERP to the next generation of ERP, and plus I think taken a leadership position in this new application package. So all in all, this Business is growing.

DAN PERLIN: Excellent, thank you.

DAVID ROWLAND: Thank you, Dan.

OPERATOR: Your next question comes from the line of Lisa Ellis from Bernstein.

LISA ELLIS, ANALYST, SANFORD C. BERNSTEIN & CO.: First, just, David, one quick follow-up question on the operating margin outlook for the year: You mentioned you've changed your investments I guess for the rest of the year, and as a result, made a different tradeoff there. Can you just give some examples of what some of those investment areas are that you decided to accelerate for this year?

DAVID ROWLAND: I wouldn't characterize it as so much of a change. Remember, 10 basis points off the top is \$30 million. So, it's really -- we are executing very well, Lisa, against the investment plan that we really started the year with. On the inorganic front, we are certainly well positioned to spend at probably at the upper end of that range of \$900 million to \$1 billion, so we would be closer to \$1 billion. We continue to invest in our assets and offerings and our people, et cetera.

So, I wouldn't say that we have set a new trajectory. It's just, if you look at the aggregation of our results, you look at where we are year to date, you look at our planned investment spending for the second half of the year, which is not materially different from where we started, we just think that the more likely landing zone is in that 10 to 20 basis points.

But the point, Lisa, that I would reinforce is that it would be incorrect to interpret that as, let's say, a shift in the underlying economics of our Business, because underneath that, we're driving much more headroom in our P&L. So, our ability to drive profit improvement in our underlying Business is alive and well. It's just that this year, the level of investments and the other factors will put us more in that 10- to 20-basis-point range.

LISA ELLIS: Got it. Okay. Then a follow-up in the macroeconomic side: Given the global and sector diversity in your Business, can you just give an idea of where, now three months in to the year, where you're seeing overall IT budgets settle out? Then also, how much of the digital and the new work is being funded out of IT versus out of other parts of your clients' budgets -- like outside the IT budget?

PIERRE NANTERME: Yes. I mean, when you look -- when I look into the market, to be honest, I do not see much changes, as we speak. Just to be more specific, I think I've always said, it was in October that what the overall economic environment is sluggish, to say the least. It is still sluggish. So, we can't expect much regarding the environment. It's unstable, risky, extraordinary complex; that was the case last year and it's still the case this year.

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When I'm looking at the budget from our plans, I'm not noticing any significant change. Again, it's this story around the three drivers now, digitalization -- all industries are investing in digitalizing their operations because all the leaders and all these industries are subject to disruption, to massive disruption. So, that's what's the new factor in town. It's not about being better. It's not about getting more productivity. It's about not being disruptive and not being disruptive, not disappearing in the marketplace.

This is the right, so I see this cycle is here for quite a while and they have to invest. Now, where the money is coming from is for rationalization of the operations. I mean, cost for engineering, IT efficiency, it's all of this. It's across the board in many organizations -- it's coming from IT, but as well it's coming from all the business lines looking at virtualization, which of course, is driving good business for our Accenture Strategy or Accenture Consulting practices to do business process for engineering and profit improvement.

We have to arise at what we call the (inaudible) and the work we've been doing. One is very public, with Mondelez, which now is representing probably the benchmark of how you transform the customer organization. If you look at more efficiency, you have, of course, the consolidation. You see some ways of consolidation, especially in resources, especially in chemical, of course, the Dow/DuPont is the perfect illustration of the kind of consolidation that's happening. I can mention a few as well in the telecom given the need to get to superior level of productivity. So, the overall environment is for us more or less the same around this three drivers and in economic context, which is non-inspiring.

LISA ELLIS: (laughter) Terrific, thanks, guys.

DAVID ROWLAND: Thank you, Lisa.

KC MCCLURE: Greg, we have time for one more rather quick question. Then Pierre will wrap up the call.

OPERATOR: That question comes from the line of Edward Caso from Wells Fargo.

EDWARD CASO, ANALYST, WELLS FARGO SECURITIES, LLC: Congrats on another great quarter here. My first question is around Navitaire. What kind of contribution did that provide revenue margin and EPS before? I assume this is in cash flow to the Company over and above that \$4 billion number? Are you planning anything special for that?

DAVID ROWLAND: Yes, so, we have not disclosed previously -- and so, I don't think we would do it now, in terms of the economics -- the full economics of Navitaire as we owned it. I think from a revenue standpoint, we did give the size or we did not give the size? No, so, Ed, we've not commented on that. So, I'm not going to do that now.

In terms of the proceeds from Navitaire, we just put that in the mix. It's in the mix of our capital allocation plan. We look at that in the mix, and then execute our capital allocation strategy against our total cash, of which Navitaire is now a piece of that. But we don't think about carving it out and saying, now how are we going to use this piece outside of our normal capital allocation strategy?

EDWARD CASO: So, just to be clear, though, the free cash flow guidance does not include the \$600 million? Then the follow-on question is -- so, your balance cash levels have gone steadily down over the last few years. Is there some minimum level of cash that you're targeting?

DAVID ROWLAND: Yes. So, we are very comfortable against what we view our minimum level of cash to be. So, we are not concerned at all about our cash balance. In any way, don't think that we are touching or have any issues in terms of the minimum cash that we need to run the Business.

[A portion of the Navitaire transaction that is related to our ongoing services agreement is in our free cash guidance, so it is part of the mix, but we're very pleased with the cash position] (corrected by company after the call). We anticipated that it would -- it's progressing exactly as we anticipated. We think, by the end of the year, we'll be -- our cash balance will be pretty close to where we started. So, we're at a very strong cash position and, of course, we have a lot of opportunities for other sources of capital, should we ever decide that we need to do so.

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EDWARD CASO: Okay. Thank you.

DAVID ROWLAND: Thank you.

PIERRE NANTERME: All right. It's time to wrap up. Thanks again for joining us on today's call.

Just saying a few words in closing, and especially when I see the momentum we have created in our Business, when I see our rotation to the new and our gains in market share, combined with our continued investment to build a more differentiated Accenture frontier, I feel very confident in our ability to deliver against our revised business that includes for FY16, and importantly, to continue delivering value for our clients, for our people and for our shareholders.

So, we look forward to talking with you again next quarter. In the meantime, if you have any questions, feel free to call KC. All the best to all of you.

OPERATOR: Ladies and gentlemen, this conference will be available for replay after 10:30 Eastern Time today through June 23. You may access the AT&T Teleconference replay system at any time by dialing 1-800-475-6701 and entering the access code 387705. International participants dial 320-365-3844. Those numbers once again are 1-800-475-6701 or 320-365-3844, with the access code 387705.

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