Accenture plc (ACN) CEO Julie Sweet on Fiscal Q4 2019 Results - Earnings Call Transcript

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FQ4: 09-26-19 Earnings Summary

Press Release SEC *10-K*

EPS of $1.74 beats by $0.03 | Revenue of $11.06B (8.92% Y/Y) misses by $-10.04M

Earning Call Audio

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Accenture plc (NYSE:ACN) Q4 2019 Results Earnings Conference Call September 26, 2019 8:00 AM ET

Company Participants

Angie Park - Managing Director and Head of Investor Relations

Julie Sweet - Chief Executive Officer

KC McClure - Chief Financial Officer

Conference Call Participants

Tien-tsin Huang - JPMorgan

Bryan Bergin - Cowen & Co.

David Togut - Evercore Partners

Bryan Keane - Deutsche Bank

Harshita Rawat - Bernstein Research

Keith Bachman - BMO Capital Markets

Rod Bourgeois - DeepDive Equity Research

Jamie Friedman - Susquehanna Financial Group

Jason Kupferberg - Bank of America Merrill Lynch

Lisa Ellis - MoffettNathanson

Operator

Ladies and gentlemen, thank you for standing by. And welcome to Accenture's Fourth quarter Fiscal 2019 Earnings Call. Now, at this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. [Operator Instructions] As a reminder, today's call is being recorded.

I would now turn the call over to Managing Director, Head of Investor Relations, Angie Park. Please go ahead.

Angie Park

Thank you, Kevin. And thanks everyone for joining us today on our fourth quarter and full year fiscal 2019 earnings announcement. As the operator just mentioned, I'm Angie Park, Managing Director, Head of Investor Relations.

On today's call, you will hear from Julie Sweet, our Chief Executive Officer, and KC McClure, our Chief Financial Officer. We hope you've had an opportunity to review the news release we issued a short time ago. Let me quickly outline the agenda for today's call.

Julie will begin with an overview of our results. KC will take you through the financial details including the income statement and balance sheet along with some key operational metrics for both the fourth quarter and full fiscal year. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the first quarter and full fiscal year 2020. We will then take your questions before Julie provides a wrap up at the end of the call.

Some of the matters we'll discuss on this call, including our business outlook, are forward-looking and as such are subject to known and unknown risks and uncertainties including, but not limited to, those factors set forth in today's news release and discussed in our annual report on Form 10-K and quarterly reports on Form 10-Q and other SEC filings. These risks and uncertainties could cause actual results to differ materially from those expressed in this call.

During our call today, we'll 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 conference call.

Now, let me turn the call over to Julie.

Julie Sweet

Thank you, Angie, and thanks everyone for joining us. As a company and the leadership team, we focus every day on delivering on our commitments and creating value for our clients. And today, we are proud to announce that we have delivered another year of outstanding financial results, meeting or exceeding each of the objectives we laid out in our initial fiscal 2019 business outlook.

And I know that Pierre, our Chairman and CEO, who passed away in January would've been very proud of the accomplishments this year of our nearly 500,000 people, including more than 7,000 outstanding managing directors.

I would like to add a special thank you to David Rowland for his inspiring and exceptional leadership during these past several months and to our entire Global Management Committee who came together under David's leadership to ensure that we delivered on our commitments and which also was the ultimate way to honor Pierre and his incredible contribution to Accenture.

Let me share a few highlights for the year. We generated record new bookings of $45.5 billion, including our highest ever quarterly bookings of $12.9 billion in Q4.

Revenues for the year were $43.2 billion, an 8.5% increase in local currency. We delivered earnings per share of $7.36, a 9% increase on an adjusted basis.

Operating margin was 14.6%, an expansion of 20 basis points.

We generated outstanding free cash flow of $6 billion. We returned $4.6 billion in cash to shareholders through share repurchases and dividends, and we just announced our first quarterly cash dividend of $0.80 per share, which reflects a 10% increase over the equivalent quarterly rate last year.

We have demonstrated once again the durability and resilience of our business and the strong demand for our services positions us very well for fiscal 2020.

Now, let me hand over to KC who will review the numbers in greater detail. KC?

KC McClure

Thank you, Julie. And thanks to all of you for taking time to join us on today's call. We were very pleased with our results in the fourth quarter, which completes another outstanding year for Accenture.

Our results continue to provide strong validation of our leadership position in the marketplace, our relevance to clients, and our ability to manage our business in a dynamic environment, all to deliver significant value to our clients, our people, and our shareholders.

Once again, our fourth-quarter results reflect our constant focus to deliver strong and consistent financial results across our three key imperatives for driving superior shareholder value. So, let me summarize a few important highlights before I get into the details.

Revenue growth of 7.2% in local currency continued to be highlighted by strong double-digit growth in all three areas of the New, including digital, cloud, and security-related services. Growth continued to be broad based with the vast majority of our industries at high-single to double-digit growth levels. We continue to extend our leadership position with growth at about 2 times the market.

Operating margin was 14.2% for the quarter, an increase of 20 basis points, resulting in 20 basis points expansion for the full year. Importantly, we delivered this expansion while investing at record levels in our business and in our people to position us for long-term market leadership.

We delivered very strong EPS of $1.74, which represents 10% growth even with an FX headwind of about 2%.

And finally, we delivered free cash flow of $1.9 billion, which surpassed our expectations driven by our strong growth in profitability and continued superior DSO management.

Now, let me turn to some of the details. New bookings were a record $12.9 billion for the quarter and surpassed our previous all-time high by over $1 billion. We had very strong overall book-to-bill of 1.2.

Consolidated bookings were $6.1 billion, with a book to bill of 1.0. Outsourcing bookings were $6.8 billion, with a book to bill of 1.4. We were extremely pleased with our bookings this quarter, which were broad based and strong across many dimensions of our business.

They continue to be dominated by high demand for digital, cloud, and security-related services which we estimate represented more than 65% of our new bookings.

For the full fiscal year, we delivered $45.5 billion in new bookings. These record bookings reflect the relevance of our services and the high level of trust our clients place in us as their partner.

Turning now to revenues. Revenues for the quarter were $11.1 billion, a 5% increase in US dollars and 7.2% in local currency. Consulting revenues for the quarter were $6.2 billion, up 5% in US dollars and 7% in local currency. Outsourcing revenues were $4.9 billion, up 6% in US dollars and 8% in local currency.

Looking at the trends in estimated revenue growth across our business dimensions, technology services posted strong high-single-digit growth, strategy and consulting services grew mid-single digits, and operations continued its trend of double-digit growth.

Taking a closer look at our operating groups, resources delivered its eighth consecutive quarter of double-digit revenue growth at 12% in local currency. Growth continued to be strong across all three industries and all three geographies.

Products grew 8%, reflecting continued strength in our largest operating group. We had strong growth across all three geographies and very strong double-digit growth in life sciences.

H&PS grew 8% this quarter, reflecting double-digit growth in health and strong growth in public service. We were especially pleased with the strong growth in both growth markets and North America, with North America benefiting from continued strong growth in our US federal business.

Communications, Media, & Technology grew 5%, reflecting double-digit growth in software and platforms. And overall, we saw double-digit growth in Europe and strong growth in growth markets.

Finally, Financial Services delivered 4% growth, in line with our expectations. Insurance again grew double-digits, and we saw continued improvement in banking and capital markets globally. Overall, Financial Services delivered double-digit growth in growth markets, strong growth in North America, partially offset by contraction in Europe.

Turning to geographic dimensions of our business, I am very pleased with the continued demand across all three of our geographic regions, which illustrates the diversity of the business that continues to serve us well.

In North America, we delivered 8% revenue growth in local currency, driven by continued strong growth in the United States. In Europe, revenues grew 4% in local currency, with double-digit growth in Italy and Ireland and high-single-digit growth in the Netherlands.

And we delivered another very strong quarter in growth markets, with 12% growth in local currency led by Japan which again had very strong double-digit growth. We had double-digit growth in China and Singapore, as well as high-single-digit growth in Brazil.

Moving down the income statement, gross margin for the quarter was 31.1% compared with 30.8% for the same period last year.

Sales and marketing expense for the quarter was 10.6% compared with 10.4% for the fourth quarter last year.

General and administrative expense was 6.2% compared to 6.5% for the same quarter last year.

Operating income was $1.6 billion in the fourth quarter, reflecting a 14.2% operating margin, up 20 basis points compared with quarter four last year.

Our effective tax rate for the quarter was 26.6% compared with an effective tax rate of 28.0% for the fourth quarter last year.

Diluted earnings per share were $1.74 compared with EPS of $1.58 in the fourth quarter last year.

Days service outstanding were 40 days compared to 39 days last quarter and 39 days in the fourth quarter of last year.

Free cash flow for the quarter was $1.9 billion, resulting from cash generated by operating activities of $2.1 billion net of property and equipment additions of $241 million.

Our cash balance at August 31 was $6.1 billion compared with $5.1 billion at August 31 last year.

With regards to our ongoing objective to return cash to shareholders, in the fourth quarter, we repurchased or redeemed 2.1 million shares for $407 million at an average price of $189.78 per share. And our Board of Directors declared a quarterly cash dividend of $0.80 per share to be paid on November 15, a 10% increase over the equivalent quarterly rate last year.

Now, I would like to take up few minutes to summarize our outstanding year. And as Julie mentioned, we were extremely pleased that we successfully executed our business to meet or exceed all aspects of our original outlook that we provided last September.

Revenue growth of 8.5% in local currency for the full year was above the top end of the guided range that we provided at the beginning of our fiscal year. This result is a strong indication of the durability and resilience of our growth model, which is underpinned by our focus on achieving market-leading scale across key industries, geographic markets and services. This includes our strategic focus to lead in the new, which represents approximately 65% of revenues for the year.

Operating margin of 14.6% reflected a 20 basis point expansion over FY 2018 and was aligned with our original outlook.

The diluted earnings per share was $7.36, reflecting 9% growth over adjusted FY 2018 EPS and was above our original guided range. As a reminder, in fiscal year 2018, EPS was adjusted to exclude the impact of tax law changes.

Free cash flow of $6.0 billion was well above our original guided range, reflecting a free cash flow to net income ratio of more than 1.2, driven by strong profitability and continued industry-leading DSOs.

And finally, we exceeded our objectives for capital allocation by returning $4.6 billion of cash to shareholders, while investing roughly $1.2 billion across 33 acquisitions to acquire critical skills and capabilities in strategic high-growth areas of the market.

So, again, we had a truly outstanding year and we feel really good about our positioning as we head into fiscal 2020.

Now, let me turn it back to Julie.

Julie Sweet

Thank you, KC. Our strong results reflect the power of our growth strategy. Our strategy starts with what our clients need. And our clients need to transform their entire enterprise.

What we see is that most of our clients are still in the very early stages of their transformation journeys. The starting points and speed are different by industry and by company, but the scope of the ambition is consistently broad.

Our fiscal 2019 results reflect the strong demand for our services and the significant growth opportunities in front of us.

I am extremely pleased that we finished the year with 200 diamond clients, which represents our largest relationships with many of the world's most iconic companies.

I'm also proud to share with you that, in fiscal year 2019, Accenture Interactive achieved a significant milestone, reaching over $10 billion in revenue.

And finally, this quarter, we had 16 clients with new bookings over $100 million.

Clients choose Accenture for their largest and most complex transformation programs because they know we are uniquely positioned to create value by combining our unparalleled technology expertise, our privileged ecosystem relationships, our focus on innovation and our broad industry depth.

Our proven track record of global implementations at scale, coupled with our capabilities from strategy to operations, create significant value for our clients.

Let me double-click on a few of these important elements of our business, starting with our deep technology expertise and our privileged ecosystem relationships.

Transformation for our clients begins with their understanding that technology is core to their business. And they turn to us because technology is core to our business.

The depth, breath and scale of our technology expertise, combined with the power of our deep ecosystem relationships where we are a leading partner with all the key players, is critical to being our client's partner of choice.

Another element I want to highlight is our deep and broad industry expertise across our 13 diverse industry groups. This breath has always provided us durability and resilience in our business.

And today, it has created another competitive advantage. CEOs are increasingly looking to benchmark themselves against the best companies regardless of industry and they are turning to us for our cross-industry expertise.

Because we bring both deep industry expertise in their industry as well as across other industries, we can help drive even more value at speed for our clients.

Let me bring this to life with an example of a solution that we originally developed for the communication industry and are now using to accelerate value in other industries.

For comms companies, building out their network and providing excellent customer service across all channels are the biggest imperatives. We helped Verizon use artificial intelligence, coupled with our deep understanding of the industry, to create digital assistant experiences at scale that can now address more than 70% of Verizon's calls.

In many cases, a 20-minute call with an agent has been reduced to a 3 to 4-minute digital interaction, significantly improving the customer experience. Verizon's agents have enhanced their skills and now have more time to handle the most complex calls, which is also the most interesting work.

As you can imagine, call centers represent a significant opportunity to drive value in many industries. Recognizing this, we were able to tailor our solution to the unique needs of our clients in both utilities and public service.

At Enbridge, the global energy company, we implemented a solution in their gas utility operations to address inquiries similar to Verizon's, such as billing questions and service changes, to improve their customer experience. Now callers are able to complete many transactions digitally and customer satisfaction is up significantly.

And the New Mexico Human Services Department is using our solution to help employees answer questions about Medicaid faster and more accurately. For example, the state has reduced the time it takes to complete the process of providing Medicaid coverage to newborn babies by up to 75% and our solution has freed up employees to focus on more complex tasks, enhancing their experience as well.

Let me wrap up by talking a bit more about our people and the inclusiveness of our culture. Our people and culture are our biggest competitive advantage and our unwavering commitment to inclusion and diversity enables us to recruit the most talented people in our markets. This creates an environment which unleashes innovation and allows our people to perform at their very best.

Today, I am announcing yet another milestone on our path to gender equality by 2025. With nearly 500,000 people around the world and as a technology powerhouse, we are now 44% women.

In addition to gender, we are focused on leading in all areas of inclusion and diversity, and I'm proud to announce that, for the second year in a row, we have been ranked number one on Refinitiv's Diversity and Inclusion Index, which was previously produced by Thomson Reuters, and identifies the 100 publicly traded companies around the world with the most diverse and inclusive workplaces based on environmental, social and governance data from more than 7,000 companies.

With that, I'll turn it over to KC to provide our fiscal 2020 business outlook. KC?

KC McClure

Thanks, Julie. Now, let me turn to our business outlook. For the first quarter of fiscal 2020, we expect revenues to be in the range of $10.9 million to $11.2 billion. This assumes the impact of FX will be about negative 2% compared to the first quarter of fiscal 2019 and reflects an estimated 5% to 8% growth in local currency.

For the full fiscal year 2020, based on how the rates have been trending over the last few weeks, we currently assume the impact of FX on our results in US dollars will be approximately negative 1% compared to fiscal 2019.

For the full fiscal year 2020, we expect our revenue to be in the range of 5% to 8% growth in local currency over fiscal 2019.

For operating margins, we expect fiscal year 2020 to be 14.7% to 14.9%, a 10 basis point to 30 basis point expansion over fiscal 2019 results.

We expect our annual effective tax rate to be in the range of 23.5% to 25.5%. This compares to an effective tax rate of 22.5% in fiscal 2019.

For earnings per share, we expect full year diluted EPS for fiscal 2020 to be in the range of $7.62 to $7.84 or 4% to 7% growth over fiscal 2019 results.

For the full fiscal 2020, we expect operating cash flow to be in the range of $6.35 billion to $6.75 billion., property and equipment additions to be approximately $650 million and our free cash flow to be in the range of $5.7 billion to $6.1 billion. Our free cash flow guidance reflects a very strong free cash flow to net income ratio of 1.1 to 1.2.

Finally, we expect to return at least $4.8 billion through dividends and share purchases as we remain committed to returning a substantial portion of cash to our shareholders.

And with that, let's open it up, so we can take your questions. Angie?

Angie Park

Thanks, KC. I would ask that you would each keep to one question and a follow-up to allow as many participants as possible to ask a question. Kevin, would you provide instructions for those on the call?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. First question is from the line of Tien-tsin Huang, JP Morgan. Please go ahead.

Tien-tsin Huang

Okay, thanks. Good morning. No surprises on the outlook. But I do want to ask on the bookings here. So, outsourcing bookings were strong. You said that large deals did come through. You suggested that it would, which is great. But on the consulting bookings side, that was flattish for the – I guess, I'm looking at the second half of the year, so can we expect a rotation here perhaps into more outsourcing revenue and maybe bookings, looking at your fiscal 2020? Can you give us maybe your views on outsourcing versus consulting growth in fiscal 2020?

Julie Sweet

Sure. So, thanks, Tien-tsin, for the question. Maybe, I'll start with the last part of your question. In terms of how we're thinking about growth in fiscal 2020 for consulting and outsourcing, we expect for the full year that growth for consulting and outsourcing, they'll both be in the mid-to-high, single-digit range, and that's baked within our 5% to 8% guidance for the year.

And taking your booking questions, as you mentioned, we had record bookings for this quarter, $12.9 billion. And if you peel that back and look at our consulting bookings, we also had bookings at $6.1 billion in consulting type of work, and that's one of our highest booking quarters ever, and it was out of our book-to-bill target of 1.0 or higher.

And I think importantly, Tien-tsin, as well, we feel really good about the pipeline that we have as we enter in the beginning parts of fiscal 2020, and we say that on an overall broad base in terms of all aspects of our business.

And so, when you peel that back and you look at overall what we've done in terms of our bookings for the fourth quarter in consulting, our overall bookings at $12.9 billion, a record, as well as our strong pipeline as we head into fiscal 2020, we still see – we see balanced growth across both types of work.

Operator

Okay. Our next question is from the line of Bryan Bergin of Cowen. Please go ahead.

Bryan Bergin

Hi. Thank you. I wanted to follow-up just on that booking question. It seems like the variability quarter to quarter has become more volatile. Can you just talk about the major drivers of that and is that something that we should expect to continue in fiscal 2020?

Julie Sweet

Yeah, in terms of our bookings, I think if you take a look at how we position bookings and think of it from a quarterly basis, and we've said this kind of historically, they can be lumpy from quarter to quarter. And really what we're looking at in terms of our overall booking is that we meet on a prolonged period our bookings targets, which for consulting or anything from 1.0 and above which we did this year and this quarter, and for outsourcing which tends to be 1.1 and above over a prolonged period. In this quarter, we did 1.4. So, we expect that there will be some variability. You saw that certainly this year where we had really strong bookings in quarter two. We had it a little bit lighter as it relates to the rest of the full year and quarter three, and we signal that based on our pipeline, we thought that we would have very strong bookings in Q4, and indeed we did. So, that's something that we're very used to.

As we think about FY 2020, we tend sometimes to have – Q1 might be a little bit of a lighter bookings in relation to the rest of the quarter, but again this – coming off a particularly very strong year, in quarter four, that may be the case as well for this year, but we feel very strong – we feel very good about our strong pipeline as we enter into 2020.

Bryan Bergin

Okay, thanks. And then just a follow-up here on your talent and resourcing model, as you approach 500,000 employees, can you talk about what you're doing to reduce the manual effort around work? I think in the past, you disclosed automated FTE or efforts within your operations group. So, any update you can provide there? And it's in the context of just the uptick that we saw in attrition to 19% and your comfort levels there? Thanks.

Julie Sweet

I'll let KC address the specific uptick around the attrition, but let me give you a broader perspective on how we look at talent. So, one of our greatest strengths, right, is how we manage talent and people. And so, if you look at it at any given time, we are always adjusting the use of technology in our business and the talent that we then need to hire. And so, we have talked about it in the context of our operations business. But when you think about the work that we do in technology with our myWizard platform where we're using the latest in artificial intelligence and analytics to help our clients, that was work that, five years ago, we used people. And so, we don't think about this as a particular sort of strategy to do X, but that at any given time, we are continuously innovating how we are giving services and then adjusting what that means for our talent, and we do that really seamlessly quarter to quarter and year to year.

KC McClure

And, Bryan, just to answer your question on the actual attrition number, we did have a slight uptick this quarter by about 1%, but we feel good about the strong retention rates that we have in key strategic areas of our business, and that includes areas such as our digital practice as well as strategy and consulting. As you know, we really have no issues in attracting the people that we need, and people choose Accenture because of our strategy, our strong financial performance, and the experience that we provide to our people, continuous learning, the amount of investments we make in training and innovation, and it really does make Accenture one of the best places to build a career.

Operator

And next we have David Togut of Evercore. Please go ahead.

David Togut

Thank you. Good to see the bookings strength. I'd like to ask about any changes you're seeing in average contract length, especially given the ongoing strength in outsourcing bookings and possibly in the evolution of your shift to the new – are you in more of an operating and run stage with a lot of bigger clients?

KC McClure

Hi, David. There's really no change to the duration of our contract and our bookings. No change.

Julie Sweet

David, I would think about – really think about what we're seeing in the business because really our clients are focusing on enterprise-wide transformation. And what that requires is that we bring all of our capabilities together, really from strategy to operations. And you saw that on the bookings we had this last quarter of 16 clients with over $100 million. And just to give you an example, we're working in products with – one of those was a products company, Fortune Global 100 who is transforming HR using everything from our strategy capabilities to our operations capabilities to transform the experience from hiring to retirement and, at the same time, drive down costs. And our competitive advantage in this market is that we are able to bring all of those capabilities. And what we're seeing is that boards and CEOs are really focusing on the enterprise-wide transformation which means large and strategic programs which is what we are very uniquely positioned to deliver.

David Togut

Understood. Just as a quick follow-up, you announced a leadership change Tuesday at the head of your Products group, your largest operating group. What changes should we expect with Simon Eaves taking over Products leadership?

Julie Sweet

That's going to be a very seamless transition to Simon. He's been working in Products for most of his career and brings the deep both – industry, operational and sales expertise. So, that should be very seamless.

David Togut

And next, we have questions from the line of Bryan Keane, Deutsche Bank. Please go ahead.

Bryan Keane

Hi, guys. I wanted to ask about digital. If I look inside the new, digital appeared to be slowing a little bit more than cloud and security. It's off its high growth rate in fiscal year 2018. So, just thinking about it, is digital getting more penetrated or more competitive inside there? I know it's still growing robustly at, looks like, high teens, maybe low 20%, but it is off of the growth rate that it was growing at previously. So, we always get questions about penetration there. Thanks.

KC McClure

Yeah. Sure, Bryan. I'll answer the questions on the growth rate. I'll hand it over to Julie to talk about what's happening within the digital business. So, digital, in terms of what we estimate for the full year, we estimate digital to be about $21 billion business. So, it's very significant in terms of scale. It's about 50%, almost pushing 50% of our overall revenue base. So, with that scale, as you mentioned in terms of growth, we are at the very high teens in terms of growth rate. So, we're really pleased with what we're seeing in the continued, very strong, high-teen double-digit growth that we have in digital. And we expect that, as we look into next year, that overall we will have – in the new, we'll continue, which includes digital, to have double-digit growth overall in FY 2020.

Julie Sweet

I think, Bryan, it is important to look at, again, what our clients are doing when we think about where we are in our growth strategy. As I said earlier, we do see our clients at the very early stages of their transformation. And so, really think about what is happening in three buckets.

The first is, they are building out their digital core, right, which is establishing the technology foundation. And so, in the scale parts of our business, intelligence platform services, which is all about the next gen platform, that's 40% of our business today growing double-digits because they need – our clients need to establish that new foundation that's going to fuel the enterprise transformation.

At the same time in the digital core, we're still in the early stages of scaling areas like data, right, how our clients are going to be able to find and curate that data which is just really beginning when you think about how much data there is, security which is only at $2.5 billion and then the move to the cloud.

So, within building the digital core, we have scale plays like intelligent platform services growing double-digits and then we have the next scale plays which are also growing double-digit.

Then the second big area our clients are focused on is driving the growth agenda which is all about creating better customer experiences which is fueling Accenture Interactive, which hit $10 billion this year, but it's also fueling the focus on new products and services which is what X.O is about. That's at very early stages, right, having connected products and services. And so, that will be the next area that we are really focused on scaling in the growth agenda.

And then, the third area is in optimizing their operations. And again, scale part of our business, operations, which is growing double-digit, right, and that's because it helps our clients reduce costs to increase their investment capacity, but it also enables our clients to do the transformation because we have invested in operations to use machine learning and other forms of emerging technologies, and so they are accessing those technologies through our platform in operations.

But then, at the same time, right, you have again X.O where we're seeing the early stages of digitizing manufacturing and creating the connected plant, which will be the next play that we are scaling, right?

And then, of course, at any given time, we're in the innovation space and we're looking at the emerging technologies that will fuel growth. But in each of the areas of what our clients are doing, we have scale today growing double-digits and then we have the next plays that we're scaling.

Bryan Keane

That's helpful. I just had one follow-up for KC. On tax rate, I see tax rates going up, looks like, about 100 basis points to 300 basis points and I know there's some moving pieces in terms of tax rate. So, can you just talk about what are the factors we should be considering there for tax in this fiscal year?

KC McClure

Sure, Bryan. So, our range, just to maybe to anchor to where we're starting with, so our range for fiscal 2020 is up about 0.5 point compared to where we started last year for fiscal 2019. And the increase from fiscal 2019 to fiscal 2020 is primarily due to the US tax reform provision that phased in over two years. And as a reminder, there are four factors that I think you probably know well, but just might bear repeating, that can influence our tax rate in any given year. And the first one is our geographic mix of our income. Second is the changes in our prior-year tax liability. The third is our final determinations. And the fourth is the tax impacts on our equity compensation.

Operator

Thanks. Our next question is from the line of Harshita Rawat of Bernstein. Please go ahead.

Harshita Rawat

Hi. Good morning. Thank you for taking my question. My question is for you, Julie. Given your background in M&A and what's happening in the marketplace, should we expect Accenture to potentially look at larger deals now versus the tuck-ins you've done historically?

And then, as a follow-up to that question, over the last couple of years, you've done a lot of acquisitions on Accenture Interactive. So, going forward, what we should we expect is the focus of your M&A activity?

Julie Sweet

Thanks for the question. Harshita, let me start with the overall strategy around acquisitions, which is, while it served us extremely well and we think about acquisitions to do three things, to scale hot areas in the market. So, for example, this year, we did about six acquisitions in technology, three of them in particular around intelligent platform services where I've already talked about, we're seeing double-digit growth and we need to – we wanted to help scale our capabilities.

The second is to add new capabilities. And this has been a lot of our acquisitions in the new, which has been about 20 of the acquisitions that have been in digital and security, particularly as you pointed out in Accenture Interactive. And so, that is all about adding new capabilities.

And then, the third is really getting deeper industry and functional expertise. And so, this year, we did four in the area of financial services where we really expanded our expertise in that industry through these acquisitions. So, you should expect that our strategy is always going to around those three areas, and that it is meant to fuel our organic growth.

Now, with respect to whether we would do a larger acquisition, we've always said that we could do a larger acquisitions, but it would really need to make sense for us in the context of what we look to acquisitions to do. So, there are certainly no plans to do that, but, obviously, we have the capability if that ever made sense.

And then, finally, as we think about going forward, well, certainly, Accenture Interactive is an important focus point and we've done a lot of acquisitions there. As you think about where we're scaling, right, so the next scale plays, like X.O, you should expect to see that we're going to focus in that area as well.

And so, at each year, we're going to look at where we need to either scale, add new capabilities or add industry expertise. And it'll really change based on what we're seeing in the market and what's available.

Harshita Rawat

That's very helpful. Thank you very much.

Operator

And next question is from line of Keith Bachman, Bank of Montréal. Please go ahead.

Keith Bachman

Hi. Thank you very much. Julie, I'd like to direct this first one to you. And that's, how do you think about Accenture's business line related to more challenging economic cycles? And to put a little more context on the question, it would seem to me that operations is pretty resilient if, in fact, the economy got tougher. The one I question is strategy and consulting rather. And if I look back to 2009 when the economy got really tough, the strategy and consulting element declined double-digits. And so, if we look at out the next year or two, if we hit more difficult economic times, how is strategy and consulting different today that it might be more or less immune from economic cycles? And I have quick follow-up for KC.

Julie Sweet

Sure. Well, if we sort of take a step back and think about what have we been trying to achieve over the last five years, and that has been our rotation to the new, meaning focusing on the most relevant services that our clients need to transform their businesses. So, our strategy and consulting business today, right, is focused on these new services, how do you take blockchain and apply it to Financial Services, how do you use data and combine it with deep customer insights and use the skills of an Accenture Interactive to create a different customer experience. And we believe that, in a downturn scenario, our relevance to our clients comes in the fact that they are still going to need – and, in fact, we think, during that time, even more so to use these capabilities that we have in order to drive their growth agenda, optimize their operations and, of course, still build the digital core. And so, that's where we see the resilience of our current business model.

Keith Bachman

Okay. All right, thank you. And, KC, just a quick one for you. On the cash flow, particularly operating cash flow, looks like CapEx is up a little bit, but if I focus on operating cash flow, you're guiding it to be more or less flattish year-over-year. And while I understand that your cash flow metrics on guidance are almost an output, but is there anything you wanted to call out as being unusual that would make the year-over-year comparisons on operating cash flow a little more challenging or either pluses or minuses on the operating cash flow? And that's it for me. Thank you.

KC McClure

Thanks, Keith. In terms of operating cash flow in our overall free cash flow, there's a minor uptick, $50 million in capital expenditures. So, that's not really very different. But really, the way we look at our free cash flow is the goal that we have is for it to be over – at 1 or better in terms of percentages, the ratio to net income. And so, with our guidance this year, we're actually at 1.1t to 1.2. So, that's outstanding. Another year of outstanding free cash flow.

Now, this year, in FY 2019, we did above 1.2. And why did we do even better? And what are the influences that can put us in one place or the other? It really has to do with a couple items that I would point out. And this year in particular, we had significant outstanding performance continuing in our DSO. And so, for every day of DSO, it's about 130, give or take, to our free cash flow. So, we always assume at the beginning of the year that we give ourselves a little bit of room to stay in the low 40s because that would still be outstanding within our business.

And I'll just point out maybe a couple of other things that influence the fourth quarter, for example. The timing of things such as cash tax payments and just overall timing of accounts payable, those are things that can really change our – the timing of our free cash flow. But for next year, we have just another stellar free cash flow performance baked into our guidance at 1.1 to 1.2. And we continue to be very proud of how we operate our business in that respect.

Keith Bachman

Many thanks.

Operator

The next question is from the line of Rod Bourgeois, DeepDive Equity. Please go ahead.

Rod Bourgeois

Hey, there. And welcome, Julie. Julie, I just wanted to ask a big picture question here. Do you have any strategic changes or major priorities that you plan to implement as you take the helm?

Julie Sweet

Rod, our strategy starts with our clients. And so, we are going to continue to stay focused on our clients. And so, there's no change – no major change in our strategy because a new CEO doesn't change our clients. So…

Rod Bourgeois

Got it. And is there anything significant happening in any of the verticals that may change the vertical mix as you move into next year? It looks like the range of growth outcomes that you're getting across your verticals has narrowed some. Some of the really high performers has slowed and some of the weaker performers has improved. So, are the vertical performances next year prone to be more parity or could the spread widen?

KC McClure

Thanks, Rod. This is KC. I would say that, in terms of our verticals, if you're obviously talking about our operating groups, within our range of 5% to 8%, we see that all of them have the ability to be within that range. And, certainly, the opportunity exists also for some of them [indiscernible 0:46:22] resources in particular to perform above that range.

Operator

Thank you. Next question is from the line of Jamie Friedman, Susquehanna. Please go ahead.

Jamie Friedman

First, thank you for all these incremental disclosures. They are very helpful. The observation about the diamond clients, the $100 million, the decomposition of the growth, it's all appreciated. I just want to ask you briefly about the business dimension of strategy consulting. So, that dimension, I'm looking at the bottom left corner, the Q4, so the purple grid, so the mid-single digit growth for the Q4 did trend just below the flipside, which was high-single digit growth for that dimension for the year. And I know each quarter can be lumpy, but any expectation about that staying here or potentially accelerating that's contemplated in the guidance would be helpful?

KC McClure

Yeah, sure. Thanks for the question. In terms of our overall strategy and consulting business, as you mentioned, it's $14 billion is what we estimate that business to have been in the fiscal year that we just closed, 2019. It's a little bit less than – it's right around a third of our business. And at that scale, we're really pleased when we have growth in mid to high single digits range. And so, for the year, we see that it was high-single digits for this quarter and Q4 and we saw that it was mid. But we're happy when it's in the mid-to-high-single digit range. And as you mentioned, it will lap from quarter to quarter. But I think it's important and as Julie – just picking up on some of the things that Julie talked about, as you know, that consulting and strategy, it's a really important capability because that helps us drive value across the C suite, not only in the role of delivering pure strategy and advisory work to clients to shape their transformation agenda, but also to bring the entire full scope of Accenture's transformation capabilities, including technology, industry, all at a global scale. And as Julie put it on her examples as well as with our 16 clients at over $100 million, we saw that really in evidence this quarter as well. So, it's a bit of a dual purpose that we have in strategy and consulting advisory work. And we're really pleased with overall – our performance in the year, our performance in the quarter. And we feel that, with the bookings that we had in Q4, $6.1 billion which was in consulting type of work overall, but a portion of that obviously within consolidating in strategy, and we feel well-positioned in this regard for fiscal 2020.

Jamie Friedman

Okay. Thanks, KC. And then, I just wanted to ask about operation, so incredible double-digit growth again above company average, above the industry. So, I know you shared some already, but any texture there would be helpful. Can we keep that up? And is that contemplated in the guide? Thank you.

KC McClure

Yeah. So, Jamie, yes, we're really proud of what we – what Debbie and the team have been able to do in operations over the last years where they continue to have double-digit growth. And for next year, for operations, we do see that that will continue probably and maybe in the high single to the low double-digit growth range is what we see in operations.

Julie Sweet

And just to take a minute to expand on why operations is so strategic for us and for our clients, and it really is for two reasons. So, first of all, operations is a great and proven way to create value for our clients because it helps them reduce costs, create more investment capacity, but the operations business today is very different than, say, even five years ago because we have invested to bring these great technologies to the platform which we call SynOps. And if you are a CEO and you think about where do I want to build my own capabilities around artificial intelligence and emerging technologies. Do I want to do that in order to transform finance or HR or the marketing backbone? Or do I want to do that in places that are going to truly differentiate me in terms of my products, for example? And the equation is often, well, why don't we go to Accenture that is built to have platform, that's doing it across hundreds of clients with deep and long expertise in the enterprise and access that technology to transform how we're doing those functions, so that I can put my investments into these other areas that are going to differentiate us in the market. And that is really helping drive the next wave of growth for operations. And we think that's going to be even more important as we see this enterprise-wide transformation.

Operator

And our next question is from the line of Jason Kupferberg of Bank of America. Please go ahead.

Jason Kupferberg

Hey, good morning, guys. Can you just tell us how much M&A contribution you're expecting in the fiscal 2020 revenue growth? And can we also just get a follow-up comment on the tax rate with the increase in 2020? Is that the new normal we should be thinking about in, call it, medium term just based on the phase in of the tax law changes?

KC McClure

Yeah. Thanks, Jason. In terms of the contribution that we have assumed in FY 2020 in our 5% to 8% guidance range, it's about 2% inorganic which is around the same as we land in FY 2019.

In terms of our tax rates, maybe again, I will just answer that. Our range is only up 50 basis points from where we started the year and there's various things that can impact our tax rate throughout the year. So, not really in a very different space from where we started last year. But you're right that this is – in FY 2020, we have phased in the US tax reform provision that phased in over two years. So, we do think that that's really where our rate will be for this year. I'm not going to guide to – you know we don't guide to out years on our tax rate. But we will then work our four other factors that can influence our tax rate overall, but we do have, in 2019 to 2020, the second-year phasing of the US tax reform.

Jason Kupferberg

On attrition, just to come back to that, I know you guys aren't having any issue attracting the talent that you want/need, but should we expect just in light of the generally tight labor markets, especially for digital talent, that this kind of high teens ZIP code is just sort of a new normal?

KC McClure

Yeah. So, Jason, I don't think there's anything that you should expect that's different than what you've seen, and you've followed for a long time, than we've had in the past. We're in the higher teens to mid-teens in attrition. That's a level that, historically, we feel we can manage and that's how we build our business. So, there's nothing that you should expect as very different and nothing that we're concerned about.

Angie Park

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

Operator

Thank you. And that question is from line of Lisa Ellis of MoffettNathanson. Please go ahead.

Lisa Ellis

Hi. Good morning, guys. A question on outsourcing bookings again. Just didn't follow-up, I think, from Tien-tsin's question opening the call. The Accenture of old, we'd always think of Accenture's outsourcing business being heavily things like ERP management and whatnot, but that is clearly not what it is now. Can you decompose a little bit what makes up outsourcing at this point? Is this like managing clouds on behalf of clients? Is this a lot of digital marketing ongoing management? Just give a sense for what's underneath there. Thank you.

Julie Sweet

Lisa, it's interesting is that the breadth of what we do there is actually not different. It's just how we're doing it. So, for example, we're still doing application outsourcing, but we're doing it using dev ops and Agile and something we call living systems because it's a different way of doing application outsourcing that's allowing the application outsourcing that we do for our clients to help drive their business transformations. We have, of course, a $6 billion business in operations. And again, the kinds of functions in that we're doing are similar, although we've added marketing and scaled marketing over the last couple of years. But, again, it's how we're doing it. It used to be about labor arbitrage 10 years ago. It's very, very different now. And so, the breadth in terms of the activities that we're going after has not changed. What makes it so successful for us is that we've evolved how we do it.

And so, you can see application outsourcing, because of the techniques we're using, is now helping our clients get to things like Agile and dev ops at scale and be able to help drive their business differently.

Lisa Ellis

Terrific. Thanks. And then, quick follow-up for KC on the guide. One more guidance question. Can you articulate what macro outlook for 2020 is embedded in the guidance? And then, realizing it's still September, are you seeing enough visibility into budget outlooks and stuff for next year that you're feeling – what's your confidence level around that macro outlook? Thank you.

KC McClure

Thanks, Lisa. And as you mentioned, this is, obviously, obvious point. At the beginning of the year, this is our longest range of time that we're giving an outlook. But with that, as you know, we guided to 5% to 8% growth for next year. And that contemplates a market that we see growing about the same as it has done in 2019. So, for us, for our addressable market, we think it's probably somewhere in the 3% to 4% range overall for next year.

Julie Sweet

So, thanks again for joining us on today's call. KC and I and the entire team are extremely pleased with our excellent performance for fiscal 2019. We see significant opportunity ahead and we are laser focused on delivering value for all of our stakeholders.

And let me end by thanking our stakeholders, thanking our clients for placing their trust in us, our investors for their continued confidence, our ecosystem partners for their shared commitment to our clients, our exceptional leadership team and, finally, all of our people around the world. You are what makes Accenture so special.

I'll see everyone on the road. Thanks.

Operator

Thank you. Ladies and gentlemen, that does conclude your conference. We do thank you for joining and for using &T Executive TeleConference. You may now disconnect.