

# AMDOCS Q1 2024 CONFERENCE CALL SCRIPT - FINAL

February 6, 2024

5:00 pm

Matthew Smith, Head of Investor Relations

## **Slide 2: Disclaimer**

Thank you, operator. Before we begin, I need to call your attention to our disclaimer statement on slide 2 of the presentation. It notes that some of our comments today may be forward-looking statements and are subject to risks and uncertainties, including as described in Amdocs' SEC filings, and that we will discuss certain financial information that is not prepared in accordance with GAAP. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release, which will also be furnished with the SEC on Form 6-K.

## **Slide 3: Today's Speakers**

Participating on the call with me today are Shuky Sheffer, President and Chief Executive Officer of Amdocs Management Limited and Tamar Rapaport-Dagim, Chief Financial and Operating Officer.

## **Slide 4: Earnings Call Agenda**

To support today's earnings call we are providing a presentation which can be found on the Investor Relations section of our website, and, as always, a copy of today's prepared remarks will also be posted immediately following the conclusion of this call.

On today's agenda, Shuky will recap our business and financial achievements for the first quarter fiscal 2024 and will update you on the continued progress we have made executing against our strategic growth framework, including Generative AI and our continued sales momentum in cloud.

Shuky will finish by discussing our financial outlook for the full fiscal year 2024, after which Tamar will provide additional details on our first quarter financial performance, our forward guidance, and our continued commitment to ESG.

And with that, I'll turn it over to Shuky.

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**Slide 5: Shuky Sheffer, Chief Executive Officer**

Thanks, Matt, and good afternoon to everyone joining us on the call today.

**Slide 6: Solid Start to Fiscal Year 2024**

I am pleased to report a **solid** start to the fiscal year, many thanks for which go to our amazing people around the world who work hard to deliver the innovation and value our customers need on their journeys to:

- Cloud-based 5G, fixed wireless access and fiber networks
- Improve digital consumer and B2B experiences, and
- Harness the power of Generative AI

**Slide 7: Q1F24: Record Revenue, Continued Profitable Growth & Margin Improvement**

The first fiscal quarter financial highlights appear on slide 7:

- Record revenue of \$1.25 billion was up 5% from a year ago and in line with the midpoint of guidance
- Non-GAAP operating margin **increased** by 40 basis year-over-year and 30 basis points sequentially as our initiatives to **accelerate** profitability yield results
- Non-GAAP earnings per share was \$1.56, consistent with the midpoint of our expectations, and
- We closed Q1 with a **record** 12-month backlog of \$4.21 billion, up approximately 3% from a year ago and a **healthy acceleration** of \$60 million on a sequential basis

**Slide 8: Fiscal First Quarter Operational Highlights**

Our record 12-month backlog position reflects **healthy** first quarter sales **momentum**, as highlighted on slide 8.

- We deepened our relationships with key North American customers such as **AT&T** and **T-Mobile** and strengthened our international footprint by expanding existing activities at

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large operators such as **Vodafone Germany**, **A1 Telekom Austria**, **Magyar Telekom** in Hungary, and **Etisalat** by e& in the UAE.

- Additionally, we added **new** logos like **Finetworks** in Spain and **DELTA Fiber in Netherlands** and achieved **another** quarter of **strong sales momentum** in cloud with migration awards at **operators in Canada, Southeast Asia** and a new project with **NTT Infranet** in Japan.

Q1 was also notable for Amdocs' consistent project execution. We successfully completed **major** implementations at several large-scale customers around the world, thereby creating the foundation for future business expansion.

- Amdocs was instrumental in supporting the merger integration of **T-Mobile** and continues to support T-Mobile's modernization journey to offer an unparalleled consumer and B2B customer experience in the industry.
- Elsewhere, Amdocs enabled the seamless migration of 14M customers to a new omnichannel platform at **Three UK**, and the conversion of around 138 million subscribers to our latest cloud-based charging technology for a **leading operator in Southeast Asia**.
- At **Claro Puerto Rico**, Amdocs' full digital transformation for prepaid offerings was completed, covering 100% of stores. Amdocs also extended its software and maintenance agreement with **Claro Brazil** until 2026, supporting over 40 million subscribers.
- For **Telcel Mexico**, we upgraded and migrated an existing Amdocs campaign management solution to AWS, migrating an on-premise architecture with a secure cloud-based solution.

**From an operations perspective**, we provided **flawless** global support to our customers under managed services engagements during the peak retail sales period of Black Friday and the holiday season.

- To remind you, our managed services business forms the bedrock of Amdocs' highly recurring revenue streams, in support of which we signed expanded long-term agreements with customers such as **Charter** in the US, and **Claro** in **Chile** and **Puerto Rico** in Q1.

Rounding out our operational highlights, Amdocs continued to bring **cutting-edge** technology and **fresh** innovation to market this quarter, reflecting our long-term commitment to deliver customer value through R&D and strategic M&A.

- Later this month, we will introduce the **newest version** of Amdocs Customer Experience Suite and service offering at Mobile World Congress, including our latest Generative AI offering innovation, where we expect to demonstrate our technology leadership across all domains, from customer experience to the network.

**Slide 9: Progress in Strategic Domains (1/5): Gen-AI**

Now, let me update you on our growth strategy, which is focused on delivering the market-leading innovation our customers need to:

- Simplify and accelerate the industry's adoption of Generative AI
- Accelerate the journey to the cloud
- Create seamless digital experiences by transforming customer journeys for consumer and B2B
- Unlock the future market potential of true 5G standalone networks with next-gen solutions, and
- Deliver dynamic connected experiences with real-time, automated networks

Beginning on slide 9, Gen AI remains a **strategic priority** for Amdocs. As generative AI gradually moves to the carrier-grade implementation stage, service providers are looking to companies like Amdocs to do the 'on the ground' work to deploy the technology and deliver the business benefits. We see this reflected in the **great progress** we have made across the three core pillars of our Generative AI strategy over the last quarter.

- **First**, powered by our generative AI framework *amAlz*, Amdocs' flagship CES24 suite now benefits from generative AI across BSS, OSS, and Network domains. Customers who adopt our latest products, such as our Customer Engagement Platform, Amdocs CPQ Pro, Amdocs Catalog, or Amdocs Intelligent Network Suite, will therefore benefit from embedded, native generative AI-powered copilot assistants.
- **Second**, our Gen AI use case factory continues to accelerate the introduction of new Gen AI use cases that address the communication industry's **key business imperatives**, a taste of which we gave in our Gen AI investor webinar in December. The initial results are promising:
  - With Bill Inquirer, for instance, CSP's can better solve customers' billing-related inquiries and recommend alternative products. This instantly transforms traditional care agents to super agents, while increasing call deflection rates by up **to 20%** and reducing average handling time by **almost 50%**.
- **Third**, we continue to evolve *amAlz* in strong collaboration with our webscale partners and industry leaders, including **Microsoft** and **NVIDIA** to accelerate the development of Gen AI applications and services.

To summarize, we believe Amdocs has already established a **leading role** as a **dominant** industry technology **enabler**, capable of helping service providers to fully **harness** the power of Gen AI by **simplifying** and **accelerating** the path to adoption. Amdocs' position is evidenced by our **active engagements** – including several pilots - and **close collaborations** with **several** of

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our large flag ship customers for which we are enabling the important Gen AI use cases of the future. We are laser-focused on delivering measurable business results.

### **Slide 10: Progress in Strategic Domains (2/5): Cloud**

Moving to the cloud on slide 10, the **strong sales momentum** of last fiscal year carried into in Q1, reflecting growing market recognition for our telco-industry expertise and ability to provide an end-to-end, fully accountable cloud migration paths.

During Q1 we won several new deals, including:

- The start of a cloud migration program with a large **Tier 1 operator in Canada**, and
- The upgrade and move to the cloud of a legacy CES 9 platform for a **leading service provider in Southeast Asia**
- Additionally, we secured a cloud transformation and managed services agreement with **NTT Infranet**, a subsidiary of Japan's NTT Group, under which we will **migrate NTT Infranet's** legacy IT systems to the cloud and deliver cloud **security** and **operations** services using the Amdocs cloud management platform.

### **Slide 11: Progress in Strategic Domains (3/5): Digital Modernization**

Moving to digital modernization on slide 11, we further strengthened our existing relationships with North America's leading communications service providers, including continued support of **T-Mobile's** modernization journey to offer an exceptional consumer and B2B customer experience.

At **Comcast**, we achieved major migration milestones related to its multi-year B2B digital transformation.

- In support of **Charter's** Spectrum services, we extended and expanded our managed services activities under new multi-year agreements which include the Amdocs Charging and Mediation solution, and
- We are working with **Altice** to expand their mobile sales solution, allowing them to sell services to business customers through mobile eCommerce and point of sale channels.

Our digital expertise is also **resonating** in Europe and Rest of World where our products and services are **highly relevant**.

- **A1 Telekom Austria** recently selected Amdocs Subscription Marketplace to enable easy onboarding, integration, and monetization of partner services
- In Spain, we won our **first** project with **Finetwork** which selected Amdocs' AI-based Digital Brands Suite as a Service to enable triple-play fiber, TV, and mobile services

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- We reached an agreement to embark on the BSS modernization journey of a **leading service provider in central Europe**, and
- In the UAE, we strengthened our collaboration with **etisalat by e&** with a multi-year enterprise factory engagement to accelerate and modernize their entire testing lifecycle across IT and user acceptance testing.

### **Slide 12: Progress in Strategic Domains (4/5): 5G, Fixed Wireless Access and Fiber Network Monetization**

Turning to slide 12, we continue to deliver the flexible solutions service providers need to launch and capture new revenue monetization opportunities, such as fixed wireless access, in the 5G standalone era.

- We're excited that **AT&T** is leveraging our cutting-edge BSS platform, part of the Amdocs CES suite, to enable the successful commercial launch of AIA – AT&T's Internet Air broadband service that is now available in 59 locations across the country, and we are looking forward to the next successful phase of this program.
- In Europe, **Magyar Telekom**, Hungary's leading service provider, elected to deploy Amdocs' Policy and Charging Control function, and we reached an agreement with **Magenta Telekom** in Austria to upgrade Amdocs Online Charging System to support their 5G standalone modernization journey.
- Additionally, we extended our collaboration with a **leading service provider in North Africa** to enhance their 5G network capabilities with our cloud-native Policy solution and deliver an improved user experience for their customers.
- Amdocs was also chosen by **DELTA Fiber**, a leading fiber and cable network operator in the Netherlands, to provide ongoing development support and software maintenance for their monetization engine, empowering them to unlock new opportunities for sales growth.

### **Slide 13: Progress in Strategic Domains (5/5): Network Automation**

Turning to network automation, we recently announced Amdocs' new end-to-end service orchestration solution, elements of which is already deployed at some customers.

- Service providers can now harness the power of virtualization, cloud, 5G slicing, and edge technologies to streamline the orchestration of complex new services.
- The solution also integrates last year's acquisition of **TEOCO's** service assurance business, which in the first quarter won **two** deals with **leading Western European operators**, including the major expansion of TEOCO's system to Transmission, Mobile

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core & RAN domains at one customer, and an upgrade and move to the cloud at the other.

#### **Slide 14: Current Operating Environment**

Turning to slide 14, let me say a few words about the state of the current operating environment.

- **First**, while macro uncertainty and industry pressures persist, the overall operating environment **remains mostly unchanged** as compared to our initial assumptions at the start of the fiscal year.
- **Second**, we remain confident in our relatively resilient business model from which we generate highly recurring revenue streams resulting from our support of mission critical systems under long-term engagements, including managed services.
- **Third**, we continue to see a rich pipeline of opportunities to help our customers on their multi-year journeys to modernize for:
  - Cloud-based 5G, fixed wireless access and fiber networks
  - Improved digital consumer and B2B experiences, and
  - Generative AI, where we believe Amdocs already has a **dominant position** as the industry's leading enabler
- **Fourth**, we believe Amdocs is **strongly** positioned as a highly relevant and trusted partner to help our customers accelerate efficiency and productivity gains, enabling future long-term cost savings.

#### **Slide 15: Reiterating our Fiscal 2024 Outlook**

Wrapping everything together on slide 15:

- We are reiterating our guidance for constant currency revenue growth of between 1.2% to 5.2% in fiscal 2024, which includes another year of expected healthy, **double-digit** growth in cloud activities.
- Additionally, ongoing efforts to achieve our expected pace of profitability improvement this year are yielding results as we implement automation, sophisticated tools, and Generative AI capabilities to improve efficiency across our business.
- Overall, assuming the midpoint of our guidance, we are on-track to deliver **double-digit** non-GAAP diluted earnings per share growth for the **fourth straight year** in fiscal 2024.

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With that, let me turn the call over to Tamar for her remarks.

**Slide 16: Tamar Rapaport-Dagim, CFO & COO**

Thank you, Shuky, and hello everyone. Thank you for joining us.

**Slide 17: Q1 FY2024 Financial Highlights**

I am pleased with our solid financial performance in the first fiscal quarter, the highlights of which you can see on slide 17.

- Record Q1 revenue of approximately \$1.245 billion was up 4.8% year-over-year in constant currency.
- On a reported basis, revenue increased 5.0% and was at the midpoint of guidance, including an unfavorable impact from foreign currency movements of approximately \$1 million compared to our guidance assumptions.
- On a sequential basis, revenue included an **unfavorable impact** from foreign currency movements of approximately \$5 million.
- On a geographic basis, all three operating regions delivered year-over-year growth in Q1, including North America which delivered a record quarter.
- Moving down the income statement, our non-GAAP operating margin of 18.1% was up 40 basis points from a year ago and up 30 basis points as compared with the prior quarter, driven by the ongoing adoption of automation, artificial intelligence, and other sophisticated tools.
- Interest and other expenses amounted to roughly \$8 million in the first quarter, mainly due to adverse foreign currency movements in the quarter.
- On the bottom-line, non-GAAP diluted EPS of \$1.56 was at the midpoint of guidance and included a non-GAAP effective tax rate of 15.3% which was within our annual target range of 13% to 17%.
- Diluted GAAP EPS was \$1.26 for the first fiscal quarter, which was at the high end of the guidance range of \$1.18 to \$1.26.

**Slide 18: Leading Indicators and Business Resiliency: 12-Month Backlog**

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Moving to slide 18, 12-month backlog was a **record-high** \$4.21 billion, up approximately 3%. On a sequential basis, our 12-month backlog **accelerated** by a **healthy** amount of \$60 million in Q1 as we continued to sign deals with **new logos** and **existing** customers.

As a reminder, our 12-month backlog has roughly averaged around 80% of forward-looking 12-month revenue over the years and has therefore traditionally served as a good leading indicator of our business.

### **Slide 19: Leading Indicators and Business Resiliency: Managed Services**

Turning to slide 19, managed services revenue was a **record** \$722 million, equivalent to about 58% of total revenue.

Our managed services engagements support the resiliency of our business, and provide the bedrock of Amdocs' recurring revenue streams, near 100% renewal rates and multi-year engagements, such as the recently expanded agreement with **Charter** which Shuky referenced earlier.

Among other highlights this quarter:

- Amdocs **extended** its managed services for **CLARO/ VTR Chile**
- We signed a **new** managed services agreement for policy and charging at **CLARO Puerto Rico**, and
- Amdocs signed a cloud transformation and managed services agreement with **NTT Infranet**

### **Slide 20: Balance Sheet & Cash Flow**

Now, turning to the balance sheet and cash flow highlights on slide 20.

DSOs of 75 days decreased by 12 days year-over-year in Q1 and increased by 6 days sequentially.

The sequential first quarter change in unbilled receivables net of deferred revenue was \$79 million in Q1, aggregating the short-term and long-term balances. As a reminder, the net difference between unbilled receivables and deferred revenue fluctuates from quarter to quarter, in line with normal business activities.

Reflecting strong execution, we reported free cash flow of \$139 million for the first quarter, comprised of cash flow from operations of \$182 million, less \$44 million in net capital expenditures and other. Note that reported free cash flow in the first fiscal quarter included

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restructuring payments of \$16 million, adjusting for which reported free cash flow would have been \$155 million.

Overall, we ended Q1 with a strong balance sheet and a healthy cash balance of approximately \$601 million, including aggregate borrowings of roughly \$650 million.

We have ample liquidity to support our ongoing business needs while retaining the capacity to fund our future strategic growth.

As a final point, Amdocs' strong financial position is reflected by our investment-grade credit ratings at S&P and also Moody's, which **upgraded** Amdocs by one notch to Baa1 in November.

### **Slide 21: Disciplined Capital Allocation**

Turning to capital allocation on slide 21, we repurchased \$159 million of our shares in the first quarter and paid cash dividends of \$51 million.

Overall, we returned a total of \$210 million to shareholders through share repurchases and dividends in the first quarter.

Looking ahead, we continue to expect free cash flow of approximately \$750 million in fiscal 2024, **excluding** anticipated restructuring payments of approximately \$24 million of which the majority was incurred in Q1. Additionally, we remind you that free cash flow in the second fiscal quarter is typically lower due to the timing of annual bonus payments.

Our free cash flow outlook of \$750 million for the year equates to a conversion rate of approximately 100% relative to non-GAAP net income and represents a healthy free cash flow yield of roughly 7.0% relative to Amdocs' current market capitalization.

Regarding our capital allocations in fiscal year 2024, we expect to return the majority of our free cash flow to shareholders.

### **Slide 22: FY2024 Revenue Growth Outlook**

Now, turning to our revenue outlook on slide 22.

To begin, we are continuing to closely monitor the prevailing level of macro-economic, geopolitical, business, and operational uncertainty, which remains elevated in the current business environment. Thus, the second quarter and full year fiscal 2024 financial guidance reflects what we consider to be the most likely outcomes based on the information we have today, but we cannot predict all possible scenarios.

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Beginning with the top-line, we **are reiterating** our revenue growth outlook of between 1.2% to 5.2% year-over-year on a constant currency basis in fiscal 2024, the 3.2% midpoint of which is roughly half organic.

Consistent with our previous guidance, we continue to expect a **stronger second half** to the fiscal year, based on our expected plan of execution for deals already in 12-month backlog, plus new opportunities which we anticipate will convert to signed deals and contribute to revenue this fiscal year.

Additionally, we remain firmly on track to deliver another year of **double-digit** growth in cloud activities, which, to remind you already represented **more than 20%** of total revenue in the prior fiscal year.

Our annual outlook includes second fiscal quarter revenue within a range of \$1.225 billion to \$1.265 billion and assumes an immaterial sequential impact from foreign currency fluctuations as compared to Q1.

On a reported basis, we now expect full year revenue growth in the range of 1.1% to 5.1% year-over-year as compared with 1.0% to 5.0% previously, which incorporates an **unfavorable** impact from foreign currency fluctuations of approximately 0.1% year-over-year, as compared with an unfavorable impact of approximately 0.2% year-over-year previously.

### **Slide 23: Accelerated Profitability Improvement**

Moving down the income statement, we are on-pace to **achieve** non-GAAP operating margins within our annual target range of 18.1% to 18.7%, shown on slide 23.

- As we said last quarter, we anticipate a gradual improvement in non-GAAP operating margin through fiscal year 2024, reflecting **ongoing efforts to optimize Amdocs' cost structure** and the cumulative benefits of our continual initiatives to improve operational excellence. This includes the adoption of automation, other sophisticated tools, and disciplined resources management, added to which we expect the implementation of Gen-AI to drive additional cost and efficiency improvements across our business.

Below the operating line, we anticipate that foreign currency fluctuations and cost of hedging will impact our non-GAAP net interest and other expense line in the range of several million dollars on a quarterly basis.

We expect that our non-GAAP effective tax rate will remain within an unchanged annual target range of 13% to 17% for the full fiscal year 2024.

### **Slide 24: Reiterating FY2024 Non-GAAP EPS Growth Outlook**

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Bringing everything together on slide 26, we are **reiterating** our outlook for non-GAAP diluted earnings per share growth in the range of 8% to 12% for the full year fiscal 2024, the midpoint of which is expected to mark the **fourth** straight year of near **double-digit** growth.

Moreover, we expect to deliver double-digit total shareholders returns for the **fourth** year running in fiscal 2024, including our outlook for non-GAAP earnings per share growth, plus our dividend yield of about 2%.

### **Slide 25: Committed to ESG**

Before handing back to Shuky, I am proud to say that Amdocs was recently recognized for its commitment to sustainability and corporate responsibility by earning a place on the prestigious S&P Dow Jones Sustainability Index for North America for the **fifth** consecutive year.

More specifically, Amdocs was ranked in the 93rd percentile of the top 20% of the companies surveyed in the S&P Global BMI based on long-term economic, environmental, and social criteria. We believe such an achievement reflects the important steps we are taking on our sustainability journey as we continue to bring our customers valuable, reliable, and sustainable products, while ensuring our operations are held to the highest ethical standards.

In line with our emphasis on conserving the environment, last year we set ourselves a long-term climate goal of becoming carbon neutral on scope 1 and 2 emissions by 2040. Amdocs also continues to place people-centricity at the heart of our focus. During Q1, we held numerous company-wide campaigns to drive awareness around gender diversity and people with disabilities, and we remained active in the communities we serve worldwide, leading dozens of events globally to support digital inclusion, STEM education, food for the needy and many other important initiatives.

With that, back to you, Shuky.

### **Slide 26: Q&A**

Shuky Sheffer, Chief Executive Officer

Thank you, Tamar.

As I said in my opening remarks, we have started fiscal 2024 on a solid note, and we are on-track to achieving a fourth consecutive year of double-digit non-GAAP earnings per share growth.

With that, we are happy to take your questions. Operator?