

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

DOX - Q1 2020 Amdocs Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 04, 2020 / 10:00PM GMT

OVERVIEW:

Co. reported 1Q20 revenues of \$1.042b and GAAP EPS of \$0.85.



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

CORPORATE PARTICIPANTS

Joshua Sheffer *Amdocs Limited - President, CEO & Director*

Matthew E. Smith *Amdocs Limited - Secretary & Head of IR*

Tamar Rapaport-Dagim *Amdocs Limited - CFO & COO*

CONFERENCE CALL PARTICIPANTS

Ashwin Vassant Shirvaikar *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Charles Erlikh *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Jackson Edmund Ader *JP Morgan Chase & Co, Research Division - Analyst*

Shaul Eyal *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Thomas Michael Roderick *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q1 2020 Amdocs Earnings Conference call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) Now it's my pleasure to hand the conference over to your speaker today, Matthew Smith, Head of Investor Relations.

Matthew E. Smith - Amdocs Limited - Secretary & Head of IR

Thank you, operator. Before we begin, I would like to point out that during this call, we will discuss certain financial information that is not prepared in accordance with GAAP. The company's management uses this financial information in its internal analysis in order to exclude the effect of acquisitions and other significant items that may have a disproportionate effect in a particular period. Accordingly, management believes that isolating the effects of such events enables management and investors to consistently analyze the critical components and results of operations of the company's business and to have a meaningful comparison to prior periods. 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.

Also, this call includes information that constitutes forward-looking statements, although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risks and uncertainties that may cause future results to differ from those anticipated. These risks include, but are not limited to, the effects of general economic conditions and such other risks as discussed in our earnings release today and at greater length in the company's filings with the Securities and Exchange Commission, including in our annual report on Form 20-F for the fiscal year ended September 30, 2019, filed on December 16, 2019. Amdocs may elect to update these forward-looking statements at some point in the future; however, the company specifically disclaims any obligation to do so.

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

With that, I'll turn it over to Shuky.



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

Joshua Sheffer - Amdocs Limited - President, CEO & Director

Thank you, Matt, and good afternoon to everyone joining us today. I am pleased to report solid first quarter results, which include record revenue above the midpoint of guidance after adjusting for currency. In addition, profitability was consistent with our operating plan, including investments to support new customer activity. We returned more than 100% of normalized free cash flow to shareholders, and we ended Q1 with record 12-month backlog of more than \$3.5 billion. This strong book of business reflects our high win rate during the quarter and includes the recent signing of major transformation projects such as Vodafone Germany and Orange Spain, both of which are among the largest of their kind in the industry today.

We believe, awards like these reflects our pedigree for innovation, our temptation for consistent project delivery and our unique ability to help our customer respond to major industry trend through our market-leading portfolio of product and services. A prime example is CES20, a fully cloud-native in micro services beta version of our customer experience suite. Leading global services providers like Orange Spain, Korea Telecom Corporation, Sprint, and Vodafone Germany already adopted CES20. By combining these with our go-to-market partners like Microsoft Azure and AWS, we believe Amdocs is well positioned to bring the critical services needed to accelerate the industry secure analytics path to the cloud over the coming years.

Now let me proceed as usual with a recap of our quarterly activities by region. Beginning with North America. Sequential revenue growth reflects stabilization of AT&T and the ongoing strategic support we are providing to customer in the broader region. Notably, the quarter includes Amdocs Media signing a multiyear content services -- servicing in Global Liberty deal with iconic film and television studio, MGM.

Regarding the outlook in North America, let me take a moment to comment on the broader market condition in which we are operating. First, we believe the long-term rational -- regional market dynamics remain generally favorable as service providers invest in strategic areas like digital transformation, wireless and Pay TV convergence, media, 5G, the enterprise segment and journey to the cloud. Such investments create opportunities for Amdocs to bring customer value with our product and services. And Bell Canada, for instance, recently launched RevenueONE, a key building block of CES20 to help Bell simplify retail engagement, improve customer experience. As a thorough example, I'm pleased to say that we've recently partnered with Microsoft Azure to support the migration of AT&T's IT assistance to the public cloud. Second, we remain committed to demonstrating the future value we can bring to T-Mobile and Sprint. Our relationship remained strong with both customers as demonstrated by Sprint's recent decision to collaborate with projekt202, an Amdocs company, which will bring experience-driven design and develop methodology as part of Sprint's continued transformation and modernization of the customer experience.

Having said that, we continue to see some indication of softness relating to the delayed merger of T-Mobile and Sprint. The immediate future of which rest in hands of the Boards.

To summarize North America. We remain on track to deliver modest growth this fiscal year. But to remind you that ongoing consolidation activity in the region remains a source of uncertainty in our near-term outlook.

Moving to Europe. We maintained healthy year-over-year revenue growth in Q1 and achieved a high win rate for the quarter that include the previously-announced transformation project in Vodafone Germany. Additionally, we are today pleased to announce the formal Q1 signing of large scale, multiyear managed transformation project in Orange Spain, which will include the deployment of AmdocsOne in the AWS cloud environment to bring Orange improved customer experience, smart monetization and faster time to market with new services.

The new deal follows our preliminary selection by this customer a few quarters ago and position Spain as a meaningful market for Amdocs by adding to our existing activity this Vodafone. A lot of the wins this quarter include a multiyear managed services agreement with A1 Bulgaria, a subsidiary of A1 Telekom Austria Group, where we have been selected to modernize, automate and digitize its business as part of a long-term expansion to our previous engagement.

Looking ahead, we expect to deliver solid growth this fiscal year, including a stronger second half as new project activity ramps ups. Having said that, we are, of course, closely monitoring macroeconomic developments in the region.



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

Turning to Rest of the World. We delivered another quarter of high single-digit year-over-year growth as we continue to support customer investment to modernize, automate and digitize their businesses. (inaudible) as we signed a multiyear managed services renewal with Liberty Latin America for the digital customer management and commerce, and successfully completed revenue assurance implementation at Safaricom, a major multi-network operator in Kenya.

Q1 was also notable for an important 5G award at KT Corporation. The largest quad-play services provider in South Korea, which will deploy Amdocs CatalogONE on the cloud in order to accelerate the launch of new 5G services, monetize new revenue opportunities and strengthen its market position as one of the world's leading service providers to commercially launch 5G services.

Looking ahead, Rest of the World is positioned for growth in fiscal 2020, driven by work in progress and the rich pipeline of opportunities we see across Southeast Asia, Latin America and parts of Africa. However, I remind you this quarterly trends will fluctuate given the positive orientation of our activities in this region.

To conclude my regional summary, Q1 was a successful quarter in which we extended our global market leadership by bringing the core engines we have built to support our customer needs and to drive our future goals. Of this engine is the next-generation networks, where we recently launched our Amdocs service and network automation solution that can be implemented on telco cloud or public cloud environment with Microsoft Azure or AWA. Amdocs is already deploying components of this technology to accelerate the network transformation NFV journey for several customers, including 3 integrated service providers in Europe, a major Tier 1 provider of the communication service in Asia Pacific and a leading MSO in North America. I'm also pleased to report strong first quarter sales momentum in Amdocs Media, which include the content process management expertise of Vubiquity, the cloud-based subscription billing capabilities of Vindicia and our newly launched MarketONE platform.

In addition to MGM, which I mentioned earlier, Amdocs Media won several new customers in Q1 include A1 Bulgaria to support the Wallet of A1 Telekom's first TVOD platform in the region. And [Unifi], a private-owned Brazilian Pay TV operator, for which we will provide the content, services and licensing of TVOD and SVOD items. The more exciting continued traction in the sports arena, we are also pleased to announce that digital subscribers has been selected to support FC Barcelona's OTT platform, Barca TV.

Finally, we are encouraged to report the positive initial customer response to Amdocs' MarketONE, a new platform that combines solution for subscription monetization, user life-cycle management and the efficient on-boarding of OTT partners in one. As we announced last quarter, T-Mobile recently selected MarketONE to support its OTT strategy. And in further validation of this offering, I'm pleased to reveal today that we have also signed a major Latin American operator to the platform.

Overall, we believe Amdocs Media is developing as a growth engine for the future and provide an example of the unique innovation we constantly bring to our customers by combining strategic acquisition with our portfolio of products and services.

To wrap up, we are pleased with our operational and financial progress in the first quarter. Our record 12-month backlog is up 4.5% from a year ago, and points to a stronger second half in which we expect revenue growth to accelerate new customer activity ramp up, and we are on track to deliver total expected shareholder return in the mid- to high single digit for the 8th consecutive year in fiscal 2020, including non-GAAP diluted earnings per share growth of 3% to 7%, plus our dividend yield.

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

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

Thank you, Shuky. First fiscal quarter revenue of \$1.2 billion was above the midpoint of our guidance range of \$1.15 billion to \$1.55 billion and includes the positive impact from foreign currency fluctuations of approximately \$3 million relative to the fourth fiscal quarter of 2019. Revenue performance was slightly above the midpoint of our expectations, excluding foreign currency fluctuations. On a year-over-year basis, our first quarter revenue grew by 3%, consistent with our guidance. Q1 revenue includes the fourth quarter revenue contribution from the previously completed acquisition of TTS Wireless in early August 2019.

FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

Our first fiscal quarter non-GAAP operating margin was 17.1%, slightly above the midpoint of our long-term target range of 16.5% to 17.5%, and consistent with our guidance that profitability in the first half of the year will be impacted by investments required to support the ramp-up of recent dual awards.

Below the operating line, non-GAAP net interest and other expense was \$400,000 in Q1. For forward-looking purposes, we continue to expect non-GAAP net interest and other expense in the range of few million dollars quarterly due to foreign currency fluctuation. If you look at non-GAAP EPS, it was \$1.06 in Q1, \$0.01 above the midpoint of our guidance range of 1.02 to 1.08. As anticipated, our non-GAAP effective tax rate of 18.8% in the first fiscal quarter was above the high end of our annual target range of 13% to 17%.

Diluted GAAP EPS was \$0.85 for the first fiscal quarter, above the midpoint of our guidance range of \$0.79 to \$0.87. Free cash flow was \$105 million in Q1. This was comprised of cash flow from operations of approximately \$164 million, less \$59 million in net capital expenditures and other.

Normalized free cash flow was \$121 million in the first fiscal quarter and is on track with our expectations for the year, which I will further expand on in a few minutes.

Please refer to the reconciliation table provided in our Q1 earnings release for an explanation of the difference between normalized and reported free cash flow in the quarter and for past period. DSO of 88 days decreased by 3 over the last year, but rose by 1 day compared to the prior fiscal quarter. We remind you that DSO may fluctuate from quarter-to-quarter.

The sequential gap between unbilled receivables and deferred revenue narrowed by \$15 million as compared to the fourth fiscal quarter of '19, reflecting a decrease in total unbilled receivables of \$2 million and a decrease in total deferred revenue, both short and long-term, of \$13 million. Versus a year ago, the GAAP improved by \$6 million. Changes in this GAAP are primarily due to the timing of contract-specific milestones relating to transformation projects we are delivering for our customers.

Moving forward, you should expect unbilled receivables and total deferred revenue to fluctuate from quarter-to-quarter, in line with normal business activities.

Moving on, our 12 months backlog was a record of \$3.52 billion at the end of first fiscal quarter, up \$30 million sequentially from the end of the prior quarter, and equivalent to year-over-year growth of roughly 4.5%. Our 12 months backlog increase was driven by signing of new deals during the quarter, including those with Vodafone Germany and Orange Spain. As a reminder, we believe our 12 months backlog continues to serve as a good leading indicator of our forward-looking revenue.

Our cash balance at the end of the first fiscal quarter was approximately \$486 million. Additionally, our Q1 balance sheet reflects the adoption of ASC 482, a new lease accounting standards under which lease assets and lease liabilities are now recognized on the balance sheet for more places, including operating leases for the term greater than 12 months. The adoption of ASC 842 does not materially impact our consolidated statements of income or the consolidated statements of cash flow for the period.

During the first fiscal quarter, we repurchased \$90 million of our ordinary shares under our current authorization. As of December 31, we had close to \$1 billion of authorized capacity for share repurchases with no stated expiration date, which we will execute at the company's discretion going forward. This includes \$149 million remaining under current authorization and a further \$800 million under the new authorization, which was approved by the Board last quarter.

Now turning to our outlook for the second fiscal quarter of 2020. We expect revenue to be within a range of \$1.35 billion to \$1.75 billion. Embedded within our Q2 revenue guidance, we anticipate a sequential positive impact from foreign currency fluctuations of approximately \$2 million as compared to Q1.

Regarding the full fiscal year 2020, we expect to deliver total revenue growth in the range of roughly 2.5% to 5.5% on a constant currency basis, the midpoint of which is unchanged as compared to our previous expectations of 2% to 6% year-over-year. Our outlook assumes just over 1 point of growth from TTS Wireless, consistent with our prior guidance. On a reported basis, we now expect full year revenue growth in the range of 2.5%



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

to 5.5%, as compared with the range of 1.5% to 5.5% previously. The outlook now includes an immaterial year-over-year impact from foreign currency fluctuations in fiscal 2020 as compared to an anticipated drag of about 0.5% previously.

We continue to expect all 3 of our operating regions will grow on a reported basis in fiscal 2020. And that the ramp-up of recent project awards will contribute an acceleration in the rate of year-over-year revenue growth in the fiscal second half. We anticipate our non-GAAP operating margins to be consistent with the higher end of our unchanged target range of 16.5% to 17.5% over the full fiscal year 2020.

As I touched on earlier, we remind you that due to investments required to support the ramp-up of new deals, non-GAAP operating margins in the first half of the fiscal year might be slightly lower than the second half, but are still expected to remain at or above the guidance midpoint of 17% in Q2. We expect our non-GAAP effective tax rate to remain within the same target range of 13% to 17% for the full fiscal year 2020. We expect the second fiscal quarter diluted non-GAAP EPS to be in the range of \$1.03 to \$1.09. With respect to Q2, we expect our non-GAAP effective tax rate to be above the high end of our annual target range of 13% to 17%.

Our second fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 136 million shares and the likelihood of a negative impact from foreign currency fluctuations in non-GAAP net interest and other expense. We excluded the impact of incremental future share buyback activity during the present fiscal quarter, as the level of activity will depend on market conditions.

For the full fiscal year, we are on track to deliver diluted non-GAAP EPS growth of 3% to 7%, consistent with our prior guidance. Additionally, our full year EPS outlook incorporates our expected repurchase activity over the year and a neutral impact from the acquisition of TTS Wireless. We now expect normalized free cash flow for fiscal 2020 of approximately \$500 million, which is a slight improvement as compared to our previous guidance of \$480 million. As a reminder, we expect normalized free cash flow in the first half of the year to be slightly lower than the second half due to the initial impact of the new deal with AT&T as well as setup costs we expect to incur during the establishment phase, required working capital investments relating to ramp-up of recent transformation project and the timing of the annual bonus payments in fiscal Q2, just as we see every year.

As stated before, we believe that roughly 1/3 of the annual normalized free cash flow will be generated in the first half of the year and roughly 2/3 in the second half of the fiscal year. The significantly stronger second half normalized free cash flow will already reflect a conversion rate of 100% relative to non-GAAP net income. We now expect reported free cash flow for the year 2020 of approximately \$400 million, which is improved as compared to our previous guidance of \$350 million.

Reported free cash flow includes the multiyear development of our new campus in Israel, for which we now anticipate capital expenditure of up to \$90 million in fiscal year 2020 as compared to our previous guidance of \$120 million and other items.

Regarding our capital allocation plans, we still expect to return roughly 100% of our normalized free cash flow in fiscal 2020. As a reminder, we retain the flexibility to vary the level of share repurchase activity from quarter-to-quarter depending on factors such as outlook for M&A, financial markets and prevailing industry conditions.

With that, we can turn back to the operator, and we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Shaul Eyal from Oppenheimer & Co.

FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Congrats on a well-executed quarter, improved outlook as well. Shuki, I was counting 8 separate press releases of contract wins, each one illustrating different capabilities you bring to the market. Anything from micro services with Sprint, managed services with Telekom Austria. You mentioned that, of course, your collaboration with NICE Systems at Vodafone Spain. So really showcasing your broad range of solutions. Are we currently seeing the fruition of prior investments and market education, which is definitely supporting some sort of an acceleration at least from the midpoint of the prior guidance. We had an accelerating backlog last quarter. This quarter, it further grew sequentially, 4.5% year-over-year. What's happening out there from a macro level, which is supporting that great improvement we had seen last quarter and without a doubt that we continue to see this quarter.

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

Shaul, good to hear your voice. I think it's -- what we see is a nice spread and consistent success over all the different type of offering that we have from product and services. And some of them are connected to investment that we've done in the last 2, 3 years, like building C1/B1 or what we call CES20 or AmdocsOne, the new platform that we have for a deeper transformation, which is a micro services cloud-based platform. At the same time, you see more demand and is reflected in our -- in the script about the activity of migration in the industry to the cloud. So we talked about our activities in AT&T with Microsoft. And as you see -- by the way, this -- the move to the cloud is something that we are in discussion. And in some cases, already in progress with many of our customers. So the move to the cloud is something that I think is accelerated lately. Obviously, we are in dialogue both with Microsoft, AWS and Google. And every one of our customers has a different preference of following the cloud partner. And we see acceleration in the media. So as we mentioned, we have success in Amdocs Media. So I think that overall, we see a nice spread of the different offerings, so it's not just this offering to the other and both across products and services.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Got it. Got it. And Tamar, if I may. In terms of the foreign exchange impact, I know Amdocs is exposed to, if I recall correctly, 5 to 6 major currencies, amongst others, of course. Which is the 1 or 2 that have been mostly impacting the business? Is it the dollar shekel? Is it the euro, the GBP sterling? Anyone screening a little better or not during the quarter, I think, also as we look into the remainder of the year.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

I think we are talking about the revenue because usually, our searching practice is highly focused on protecting bottom line, while the exposure remains on the top line. So from a revenue perspective, I would say probably the euro and British pounds are the ones that -- maybe number 3 would be Canadian dollar. So typically, those are the 3 currencies that are most impacting our revenue line.

Operator

Our next question comes from Ashwin Shirvaikar with Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Sorry for the noise in the background, I am at an airport. The question is on cash flow. So you're still signing transformational deals at a pretty good pace, but you also brought up the cash flow estimate. And I want to understand sort of the breakout of how much of it was due to reduced campus CapEx versus the element of being maybe further along in terms of extracting any economics from older signed contracts versus the need to invest in newer ones? And then you mentioned the campus spend is lower, is that a timing thing or is it more permanent?



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

So Ashwin, thanks for the question. When we're looking on the normalized free cash flow that excludes the investment in the campus. So the improvement there by \$20 million in our outlook for the year from \$480 million to \$500 million is coming from business fundamentals, and it's a combination of multiple reasons, nothing specifically. Now with 1 quarter in our bag already, we felt comfortable to raise that slightly by \$20 million for the year. And as you mentioned, rightfully so, yes, we're continuing to sign transformation. So while doing that, while we're picking up new deal awards, we believe that this is a good outlook and something, obviously, we feel comfortable with. Relative to the future campus investments that are impacting our reported cash flow, yes, we updated the number for the year from expectation of up to \$120 million to up to \$90 million. It has to do with our progress in different contractual engagements that we are continuing to value different RFPs, having better granularity of projections on specific milestones. So it's not necessarily indicative of the overall investment going down, but more about how we are seeing specifically 2020 fiscal year as it goes forward in terms of the overall (inaudible).

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Got it. And then the second question is on pipeline. You have had, at this point, at least the last couple of quarters have been, I would say, quite strong in terms of signing new deals and growing the backlog. Is that having a possible negative impact -- I shouldn't say negative, but is it kind of whittling down your pipeline that you need to now build up? Or is the pipeline continue to be strong as before? Are you refilling the pipeline?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

I think the pipeline is pretty consistent. In the same ratio that we are closing deal, I think, we are adding new opportunity to the pipeline. So I don't see this as the fact that we are waiting for March or winning in a very nice rate is impacting our pipeline.

Operator

Our next question comes from Tom Roderick with Stifel.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So Shuky, I'll throw the first question here. You -- it's a high-level question, but I'm gathering you're starting to have more and more conversations about it. Would love to hear your updated thoughts relative to the impact of 5G on the conversations you're having with some of your bigger carriers, perhaps that is starting to play a role into some of the acceleration you see in your business. But could you just kind of give some thoughts as to the handful of carriers that are looking more seriously at 5G-related services? And how they're evaluating the Amdocs portfolio as it relates to things like upgraded billings, content support, product catalog. And then, I guess, the last part of that would be, how do you currently evaluate NFV in this world of 5G, how do those things sort of play out in the future?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

So regarding 5G and, obviously, this activity is accelerating. I mean, 5G is real. Everyone is in the process of deploying 5G, some are doing faster, some less. And I think I mentioned it before, we have 3 different angles for 5G. The new 5G requires a new policy and new writing or challenging engines that can leverage all the capabilities. And by the way, because of the new protocol, but definitely all the new capabilities of 5G, so this is the first angle that we -- as we speak we are involved in many other speeds or activities, and we have a very big pipeline in this domain. The second one is deploying 5G. As we have very robust capabilities in 5G deployment, which are accelerated by the TTS acquisition in North America, from 5G deployment in North America is leading the war, although we see a lot of activities also in Europe. So the capability that we have today in supporting 5G deployment. The third element, and this is, for example, once we announced our new catalog, which is a cloud native, the best catalog today that exist in the market, is the monetization of 5G.



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

When you come with new capabilities of edge computing, low latency, network slicing, all these capabilities needs new monetization model, which require a new ordering system upgrade; obviously, a different catalog. So this is where we see from the monetization perspective, this is the third angle for 5G. Regarding NFV, when we talk about 5G platform, so it's build virtual from the (inaudible) from the design. So it's not like taking a (inaudible) so I believe that 5G will also accelerate the activities in the NFV domain. But overall, this is our view of the 5G, and this is where we're investing our money, R&D and from service perspective to support the investment.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Outstanding. Tamar, just a couple of quick hitters here for you on the financial side. One thing, looking at the gross margins, they came down a little bit more than they typically would seasonally, but certainly, understanding that you take on some of these transformational projects and they come with some uploaded front-end loaded cost, perhaps some more bodies to get those off the ground and you had a big extension with AT&T. Can you give us a sense as to how we got to think about gross margins moving forward from here in light of your big transformational deals you announced this quarter? And then second quick financial question. Do you have an update as to how TTS participated or delivered in the quarter for you. It looks like you're still predicting just a 1% tailwind from TTS for the year, but wondering if you have a number for the first quarter?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Thanks, Tom. So as we always say, I think, the right way to look at Amdocs is to focus on the operating margin. And while I believe, of course, there is significant gross margin versus other operating expenses, I would advise you to focus mainly on the operating margin line. Having said that, and back to your question, as we've said, some of the pressure coming on profitability in the first half is related to the fact we are ramping up new deals and the awards that we are very excited about, and some of them require some tech costs related to them. For example, the significant win we have with Vodafone Germany around transforming their business in a meaningful way across multiple lines of business, helping them become a digital organization, consolidating the recent business plan, et cetera. And for us, it's a major ramp-up activity now in business, up in Germany, just by way of example. So there are many of these. Obviously, transformation is going on, some of them require more set of investments than others. So I wouldn't pay too much attention to it. I would think that probably in the second half, you will see the improvement in the margin, contributing to the overall improvement in the operating margin.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Excellent. And then on TTS, real quickly, did you have a number there?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Specifically, TTS, as we've said before, we expect a slightly over a point of contribution to year-over-year growth. So we're happy with the progress. The integration is going on well. We are seeing new opportunities. We said when we acquired TTS, but this is very complementary to what we have in terms of radio access network optimization. So TTS is bringing great capabilities around planning design of networks and very relevant, of course, now with 5G being a very topical investment cycle. So we're happy with that. We are in progress. And as we've said, we acquired TTS with roughly \$50 million of revenue annually. We are seeing pretty much this space starting to ramp up, but I think it will take only a couple of more months to start translating the pipeline that we're accumulating with the synergies with Amdocs into a higher revenue growth rate.

Operator

(Operator Instructions) And our next question is from Will Power with Baird.



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

Charles Erlikh - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

This is actually Charles Erlikh on for Will. Most of my questions have actually been asked, but could you just remind us of the work that you're doing with AT&T under the new extended collaboration that you guys announced last quarter. What kind of work are you doing exactly? And is it expected to potentially bring the AT&T revenue stream back to growing in 2020 year-over-year?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

So the activities that we do as part of the agreement of AT&T is mainly related to the consumer domain. It's related to our activity in AT&T Mobility and AT&T Entertainment. And it's a combination of managed services activities and projects and delivery activities, and some other new domain like security and data-related -- data management activities. This is the broader agreement. Regarding the growth, we are very happy of stabilizing the business, which itself is a good achievement from our end. And we are starting to build a pipeline for growth. And one area that we mentioned this quarter is our partnership with Microsoft to deliver activities of moving application of AT&T to the cloud. This is just a start, but we think this thing could be developed into a nice business. But overall, as I said, last quarter, we had it like a 2-phase approach. The first one, to stabilize the business. We've done it last quarter. And now, together with AT&T, which I think, the relationship is very strong, we are starting to build a new pipeline to accelerate the business.

Charles Erlikh - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

That's really helpful. And just a quick follow-up on that. Is 5G also an opportunity at AT&T? Have you had any conversations related to that?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

5G is -- there's no Amdocs customer in North America and Europe, that we don't have ongoing discussion about 5G. So this is not just true for AT&T, this is true for every big customer in North America, Canada and pretty much the rest of the world. APAC is moving a little bit slow towards 5G comparing Europe. So I think North America is leading, then Europe, then APAC. But we have a dialogue about this. So for example, we mentioned the Korea Telecom, which everyone believes is the leading in the world in monetization of 5G. The real 5G, what we call stand-alone 5G. And so for example, they took our catalog to start to ramp up their services around 5G, but we have a bit dialogue with every major customer that we have.

Operator

And our next question comes from Jackson Ader with JP Morgan.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

There was a lot of activity in Spain, it looked like new customer activity and also signing expansion deals. Can you just remind us maybe how much activity you were doing previously in this particular geography? You've mentioned before how some of these deals require a large upfront kind of working capital investment. And I'm just trying to get a sense for what these deals may require?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Thanks, Jackson. So if you recall, we talked already about the fact that we are very encouraged with our ability to extend within Europe to more and more countries in which we didn't have historically a presence. We gave the example at the Analyst Day of Italy, where several years ago -- Ireland, Roche, et cetera, et cetera. The same is now another one of these examples where, historically, we had very little activity. And now we are ramping up as following both with the example of Vodafone in Spain, in which we have presence; and now, Orange Spain, of course, is a very meaningful win for us with managed transformation. And yes, there is some set-up costs involved for us to open a new site; obviously, some



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

localization layer built around the product, et cetera. But I don't think it's a major investment. So I'll say just because it's a new country, I think, the reason we talked about some pressure on margins, the accumulation of all of these deals is helping us to some pressure. And again, let's put it in perspective. We talked about moving from 17.3% to 17.1%. So it's not such a huge investment. But we're very happy, and spend should be one of these countries in which, for many years to come, we are now putting foot in the door and building the relationship with them, hopefully.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

Great. That makes sense. And then just a follow-up, and I apologize if you mentioned it, but the contribution from TTS in the quarter?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

So TTS is roughly bringing in the double teens per quarter. It's a company we acquired with around \$50 million of revenue annually. And that's why we said, specifically 2020, we think it will contribute roughly, we think, slightly over a point to year-over-year growth. But now we're starting to build up the pipeline together, of course, and consolidating the DPI business with our own...

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

TTS.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Sorry, TTS business, with our own mobile network optimization business that we had before. So we are encouraged with the progress of the PMI and think there is a great opportunity there.

Operator

Thank you. And ladies and gentlemen, this concludes our Q&A session. I would like to turn the call back to Matthew Smith for his final remarks.

Matthew E. Smith - *Amdocs Limited - Secretary & Head of IR*

Thank you, everyone, for joining our call this evening and for your interest in Amdocs, and we look forward to hearing from you in the coming days. And if you do have any additional questions, please give us a call at the Investor Relations group. With that, have a great evening.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.



FEBRUARY 04, 2020 / 10:00PM, DOX - Q1 2020 Amdocs Ltd Earnings Call

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.