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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

David Wicks

PRESENTATION

David Wicks

All right. Welcome, everybody. My name is David Wicks. I'm Vice President of listings at NASDAQ, and we're talking with Amdocs and Tamar.

QUESTIONS AND ANSWERS

David Wicks

Tamar, let's start a little briefly about you, tell us about your roles and responsibilities at Amdocs.

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

So hi, David. Hi, everyone. Good to be here. So my role is the COO and the CFO, which practically means that I'm part of the management of the company for over a decade now and now trying to push forward everything around the operational excellence, the financial performance of the company as well as, of course, being part of the management in designing and defining the strategy and execution of that.

And under my responsibilities is making sure that we can generate the right execution of everything we sell in terms of the operational excellence of the infrastructure to allow that, resource management, combining everything that we do around the automation tools, et cetera, in terms of how as a corporate, we are running the business and making sure that eventually you see revenue growth translated to earnings, translated to cash and the right returns for you guys.

David Wicks

All good things. So for those who don't know the Amdocs story, can you talk about what Amdocs role in the industry is, maybe a little bit about your customers and also your ESG strategy?

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

So when we think about our role in the industry, we are the ones who are providing the digital capabilities for communication service providers and media providers around the world to provide the right customer experience, the right service level and the monetization. So everything in the background that is enabling them to run their business in terms of software applications, we come with a unique business model that also take those innovative software applications and deploy it in the production environment of our customers and make sure that they run it in the best way. If they would like us to do it, we will do it on their multiyear engagement called Managed Services. By the way, 60% of our revenue is already under those long-term Managed Services engagement, but they can run it themselves.

And when we think about our role in the industry and what we can help society do is about naturally digital inclusion. So when we think about ESG, yes, of course, we are thinking about everything that has to do with diversity and inclusion. And now we are helping those that want access to the workplace and technology, et cetera, but many, many other technology companies can do, but we think the digital inclusion is the flag in

which we can add value as we can help, together with our customers, to actually create accessibility of communication and digital services around the world for different communities. And given the fact we work in 90 countries, that means we have that kind of ability to make that impact in many places around the world.

David Wicks

So Amdocs really has a unique 3 spoke business model. So if you could talk a little bit about that? And then more importantly, maybe how does that translate into backlog visibility, your stable revenue streams, your margin consistency and free cash flow generation for which Amdocs is well regarded for?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

So when we think about the technology we provide to the market, it needs to be cutting a technology that is enabling both in terms of feature and functions to provide the right experience to customers. And by the way, customers -- of all customers, consumers as well as any kind of business. So when we think about that, it needs to be also ticking the box in terms of the right time to market, in terms of the fact that we develop things in our R&D shop and how fast we can provide that value to our customer base. And of course, over the years, with additional technologies we can do it much faster.

So if historically, it used to be a release of a version every 1.5 years, every 2 years and then only then, it's an upgrade project to actually deploy that. Today, the iterations are very quick. They're measured in month, and we can bring that value from the R&D shop into the customer environment very quickly. So that's a very important aspect of our customers' ability to bring the time to market of what they need.

Then when you think about the unique business model that we have, it's not just about licensing the software products that we have. It's about taking the comfortability to deploy it in the customer environment. When you think about large-scale transformation projects, measuring it in all industries, not necessarily just in telecom, large-scale IT transformation projects have a very high tendency of failing, unfortunately. Our track record is close to 100% success rate. And that accountability is very important that we bring beyond the best technology and the products and the functionality. We bring also the ability to take it into production in the customer environment.

And then, as I said before, we offer our customers a model called Managed Services that beyond maintenance and support on a certain basic level, we can actually take the full responsibility to operate those systems for them based on an outcome that we commit to, the scope of these applications, the service level and, of course, the predictable cost structure for them in terms of how we will run it. And I'm proud to say that our renewal rate is near 100%. And this is very important as we managed to expand into more and more customers with this model. So we -- full modernization capabilities in terms of what they want to do, it's modular, so the richness of the portfolio is very high, but it's modular. They can start small with us. They can move later to additional parts of the product.

And additionally, they know they have a partner they can count on in actually taking this technology and reaching the value proposition that it has behind it, and this is something that is very unique in the industry. All of our competitors are typically either coming from the software side, all coming from the system integration side, so no one has the richest of the software stack that we provide, and no one is coming with this business model when we come to the market.

David Wicks

So let's switch a little bit, talk a little bit about market growth opportunity. And I think since the global pandemic, Amdocs really has delivered an inflection in growth, really moving from a low single digit into a neighborhood now of 6% to 10% constant currency. So at a high level, what's driving that?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

So I think this is a very important point as Amdocs been in business for decades and it's been a very consistent player. But as you mentioned, we were tracking at a low single-digit, 2% to 3% growth. And the major change that happened is while historically where we're targeting 1 area of investment domain being digital transformation, we've expanded to 4, and that's a meaningful change, 4 growth pillars that each one of them is in the billions of dollars of an investment cycle, and that changed our addressable market from being in the low \$30 billion to close to \$60 billion. So today, we have digital transformation that was there before.

But on top of that, we are addressing all the journey of the industry, the telecommunication industry to the cloud, and we can elaborate about that later. That's a big wave. That's a huge investment. It's early on in cycle. We're talking about the mission-critical systems serving telecom industry and their move to the cloud. So this is not about the regular, let's call it, e-mail application or ERP application.

Then the third one is 5G. We are coming in to help service providers monetize the 5G investment cycle. After they invest in the network, after they put all this money into the CapEx spend on the network side, they need to think how they're going to effectively monetize and they need different tools. It's different kind of applications. They need to invest in that, and we believe we have the best solution for that need.

And the fourth growth pillar, network automation. As networks are becoming much more virtualized, we have a role to play in helping service providers automate their networks and connect the network much better into the service provided to the customer as well as the quality of service provided to the customer. And this is definitely a growing domain for us, one that we evolved and built over the years. And now we see kind of an inflection point as we see more and more of the networks being virtualized. This is becoming a sweet spot for us.

So moving from 1 growth pillar to 4 growth pillar, doubling our addressable market and obviously continuing to have a strong win rate and renewal rate, this is what's accelerated that growth rate.

David Wicks

So we'll go into the pillars. When you talk about the addressable market, how sustainable are the trends over the next several years?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

We believe it's very sustainable. First of all, we see that many of them are just starting. So when you think about the move of the industry to the cloud, the mission-critical systems that we provide, this is estimated by analysts to be 5%, 10% in, so really just starting.

When you think about 5G, yes, everybody is talking about the CapEx rollout. But only now, we're starting to see stand-alone 5G networks operated in the world, actually, there are only 2 cities in the world, only 2 places in the world where it is existing, already in South Korea and Singapore. And when everybody is talking about the opportunity of monetizing 5G differently and moving to the market with new use cases, this is still ahead of us, and we are the ones providing the applications that we enable doing that.

So this cycle is just starting for us and also, we can talk from region to region. The progress is different, but even the more advanced markets like the U.S. market, it's still being rolled out and even the deals we won already are only in their relative early stage of deployment, okay? So we definitely see enough oxygen there.

And as I said before, everything around network automation is just starting for us. Even going to digital transformation, which was the original focus of the company, we see a renewed momentum there with the realization of service providers of the importance of the business segment for them. Whether those are the high-end enterprises that they want to serve or the small, medium businesses. In many parts in the world where we have these dialogues with service providers, and we see what's driving their investment in digital transformation, while historically, it was mainly consumer-driven and how they provide a better customer experience for their consumer customers, now they're very much focused on how to grow more effectively their business customers segment and how to automate that, while historically, it was very highly manually done.

David Wicks

So let's go into some of the growth pillars now, and let's start with the digital modernization. Maybe talk a little bit about what drives growth in this segment? And how you participate or what parts of your portfolio address the opportunities here?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

So when you think about our interactions with different businesses around the world, whatever it is that we are consuming, we expect a very seamless interaction, easy to access and get what we want at our choice, meaning if I want to go into a store, if I want to use it over my mobile, if I want to ask the question over the website, you want a continuous and seamless interaction with your service provider, same goes with communication service providers.

And the more this interaction is fruitful, the easier it is to give you an answer, if you want to acquire something new or if you want to report and talk about a problem you have and fix it. So when you think about this digital interaction and this customer experience aspect, it's everything from the design of how this should look like and what the customer journey will look like, all the way to actually fulfilling that, including in the back-end systems that you and I don't see as consumers that are so important in order to provide that because just to have a nice design of the screen that we access is not enough.

Obviously, there needs to be a full pull-through in terms of the speed and activities of how you can do all of that in a manner that is real time. It's in the context of what we need, realizing who we are as the customers, et cetera. Now take the same thing, and take it now to the enterprise world. If I'm a nationwide business that have, I don't know, 1,000 branches in the U.S. market, and I need to consume communication services, and I have a touch point in the service providers that has worked with me. Historically, it was about calling the account manager, the relationship manager, having a lot of Excels in the background, and I'm not exaggerating Excels. A lot of very manual processes that were done, and this obviously needs to go through a revolution, and this is the opportunity we see in taking the digital transformation also to the business segment.

Now for us as Amdocs, we were always focused on the digital transformation, mainly from the point of the sale already done by the service provider to the customer, then taking the order, fulfilling the order, monetizing and getting money for that, taking care of all kind of assets, what's called care, if the customer has a problem, how do they report it. We were less involved in the customer engagement side and the selling process.

In the recent Mobile World Congress, which is the biggest industry event that we have every year, we announced a very strategic partnership with Microsoft that is targeting exactly that, meaning they are coming with this part of the customer engagement based on Microsoft Dynamics, et cetera, and we are going to take that and actually embedded as part of our portfolio, so now we will really have the full end-to-end from the sales process all the way to capturing the order, fulfilling the order and monetizing for that.

And this is going to be created in a way that if you think about it, Microsoft Dynamics is selling across for many, many, many verticals, right? And when we think about the telecommunication industry, there are very specific needs that we understand that we can help in reshaping the capabilities of Microsoft Dynamics to be fitted specifically for the needs of the telecom industry, so we are going to invest in that for the R&D, connected to our portfolio and go to market and sell that. And the same model of Amdocs, where we take responsibility and the full accountability to deploy it, including now the telco-based Microsoft Dynamics solution as well as offer around that Managed Services.

For Microsoft, of course, the benefit is potentially better penetration in the telecommunication as well as the pull-through of the cloud workloads that will be available. And during this relationship evolving, generative AI came into the play, and this became even a more important partnership as we have now much better access to everything that goes on in terms of Microsoft leadership in generative AI and how we can actually embed that into our capabilities even faster.

David Wicks

All right. Let's switch. Let's go to the second growth pillar, journey to the cloud. So when you look at the hyperscalers, AWS, Azure, they pointed to slower growth rates in recent quarters, yet Amdocs seems to be seeing the opposite. So where is the communications industry in terms of moving mission-critical workloads to the cloud?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

So I think the explanation to this -- what seems to be a disconnect is that they are talking about workloads all over the world, of course, and all of our industries, while we are talking specifically about the shift to the cloud of the dedicated mission-critical systems of the telecom industry, where we are seeing it just beginning. So when we are talking about -- you may have heard the terms, BSS, business support systems, or OSS, operating support systems, which are specific to the telecommunication industry, we are just starting to see this.

We ourselves as a market leader, are coming out in the recent years with only cloud-native applications. So every new customer or every customer that want to deploy our new stack is my design going to be deploying a cloud-native applications. They can run already on the cloud. It's their decision whether they run it on AWS or Microsoft Azure or on a private cloud on their own environment, their call. We are enabling the capability and the flexibility to do it.

Given the fact we are a market leader and already incumbent with many customers, we realize that some of them want to move into the cloud in a gradual manner, not necessarily ripping out legacy and putting in the new stack is cloud native, but actually moving in a more gradual way, so we are enabling them that path as well in terms of taking existing product versions that we have and making it cloud-enabled. Yes, they will not benefit from all the advantages of being in the cloud like that, but it's a gradual way to take their workloads from their own data center to the cloud and then gradually modernize their application stack.

We also have great expertise in the data migration, the subscriber migration. It all needs to be seamless, right? Again, as consumers, we don't care if our service provider is running on data center or on the cloud, it all needs to be seamless. We have huge expertise developed in terms of how to do this migration to the cloud to the level that we are doing, it's not only in our own applications, but also in our domain on applications that they're moving to the cloud of other kind of non-Amdocs applications, and we were selected to do that by many customers.

So I think what we are seeing is an amazing opportunity for us in terms of modernizing the industry on the cloud, taking and dealing with the shift, which is not trivial, and then comes Managed Services. If you think about the next generation of Managed Services, it's about running the application on the cloud, meaning everything among the cloud, DevOps and FinOps, et cetera, it's something we have very strong capabilities in doing. We already sold that to big customers like AT&T and T-Mobile all the way to smaller brands in other parts of the world as there is a clear differentiation when we come both with the application, the understanding of how to bring them to the cloud and also then run it under a multiyear Managed Services agreement on the cloud environment.

And it's important to say, eventually, we are partnering with all the major hyperscale cloud providers, but we have to be agnostic because some customers may decide A or B. And by the way, customers may change their mind in the future, so we need to give them that flexibility as well.

David Wicks

So when you look at competitors here, whether it's Accenture or IBM, how do you differentiate Amdocs offering here?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

First of all, any SI, whether Accenture, IBM and others do not have the application. So when we come understanding the application itself and developing the application itself, we're actually coming and providing a very clear path of realizing, okay, what does it mean? What kind of application

you need as a customer in order to be optimizing the cloud? And as I said before, some customers by putting in the newest stack of Amdocs, the -- taking an application that is cloud native and going to benefit from everything the cloud has to offer.

There is a point you may say, okay, but if they're taking a legacy version and they're just creating that version to be on the cloud, if it's not Amdocs, they will not be able to do it in a good way in terms of enabling that application that was not written initially to be running on the cloud, now to make it run on the cloud. It's very difficult. So the fact that we actually own the application layer is extremely important.

Now around, let's call it, the ancillary services of planning and designing the migration to the cloud, of running the cloud ops, et cetera, again, they may come and they will come and they are coming with this kind of offering, but you could have asked the same question before. When we were running our Managed Services practice, it was all about taking this full accountability and really understanding the software side and automating it. And we can close the loop, what do I mean by that?

When we develop the product, we deploy the product, and then we run that software under Managed Services engagement and like a system integrator, we can add a lot of automation in how we are running this and we can have the loop of the people who run the system to bring back this feedback in a very short cycle, this feedback back to the R&D shop. So the guys in R&D, if there is a certain change, they can do in the core product that will suddenly impact dozens of customers at once, they will do it in the core R&D in the product itself rather than copying this exercise in many, many customers, which is what the SI will do.

So there are a lot of advantages by the fact that we have the software developer that we are digging the product itself. We deploy it and then run it in operations and really giving this outcome-based solution to the customers that we deliver them the value, and we tell them this is not about -- we will put 100 people and give you a rate card. What it is about is that we will take this responsibility, that scope of services, that service level, this is the price, this is what we can bring you. By the way, the importance of that from their point of view, they know exactly what's the value they're getting. They're not getting just resources. They're getting an outcome. The value from our point of view, the better we get, we can benefit from the margin expansion.

David Wicks

Let's move to 5G and you touched upon this. Maybe talk a little bit about the opportunity. But what do you say to the argument that why can't operators use existing 4G infrastructure and just to lay their investment?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

So when you think about the change from 4G to 5G, we talk about it internally, it's a bit misleading because it sounds like, okay, 3G moved to 4G, bigger bandwidth, now 4G is moving to 5G, again, bigger bandwidth. It's not the case. For the first time, with the 5G capabilities, you can actually slice the network and provide a dedicated quality of service that is committed, which is meaning that you can define certain services based on who is the customer and what is the service that they are acquiring, which means there is an opportunity to monetize for that differently.

It's not about best effort anymore. It's about something that you can commit to. So that means that there is a big opportunity here to really launch to market the services in a different way that are taking advantage in that and monetizing for that. Of course, it's up now to the service provider, how they want to do it, whether they want to do it by selling directly those use cases, whether they want to do it by creating a partnership ecosystem and gaining their share out of this enhanced value.

There are different ways in which they can go about it. Our job is to provide them the tools to enable them to do it. In order to do that, you need to change your application. You cannot use the same policy and the same charging engine and the same -- all the other components of the application and just say, okay, we'll do it differently because it's not just about the bandwidth being better.

David Wicks

So some say the 5G CapEx cycle appears to be peaking in 2023. So is this a headwind for you and how correlated are your revenues to the 5G CapEx cycle?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

So I think it's one of the confusion points about us. We are not the equipment and the network providers. We are not the ones enjoying this massive CapEx spend announcements when they're big, and we are not impacted to the other side when they're going down because this is about the layout of the network itself. We are coming in the application layer in the monetization side.

If a service provider wants to launch any kind of 5G services, now put aside the pace, are they launching it now in 10 cities, in 2 cities, are they launching it now in focus on the enterprise segment or they're launching it to the consumer segment? As soon as they want to launch something that will be meaningful in terms of monetizing for it and not just create a certain tag on the connectivity itself, they need different kind of applications, as I explained before. So it's not about how much they spend into the network. It's about whether they want to move and monetize 5G and that's why we don't see any correlation.

And by the way, historically, I tried to look at it even before 5G. Any correlation of Amdocs to CapEx spend announcements, 0, so we don't see that changing now. We don't think this is the story for us.

The story for us is to invest -- let's say, they invested already and they stop. Extreme situation, they stop. The investor dollar, the certain big amounts, usually in the billions of dollars. Do they want to bring the ROI? Absolutely. So without investing in the application layer, we will not be able to do it. That's why we believe and we see that, that they continue to invest in that. And we don't see any slowdown in this. In fact, we actually see expansion where before the focus was in the U.S. market in terms of building the applications needed to monetize 5G.

Now we see acceleration in terms of our dialogues around that in Europe, in APAC, again, putting aside Korea and Singapore, which were ahead of the curve, the rest of APAC is joining now.

David Wicks

We have a few minutes left. I have a lot more questions. I want to give the audience some opportunity to ask any questions. If anyone has a question, if they'd like to ask Tamar.

Unidentified Participant

So on the Microsoft Dynamics partnership, can you sort of give us a sense of the potential size of the opportunity and who you're displacing? Like are you taking like essentially whatever the ERP in the carrier space or just the sort of other aspects of carrier sort of systems management?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

So it's a great point. We -- as I said, we launched this partnership in Mobile World Congress, which was just a few months back, already at the announcement, we saw great excitement from customers. We already see pipeline, we are bidding together as we speak into real meaningful opportunities, I would say. I think it's too early to size it specifically, but it's definitely enhancement for us.

The one thing I can say for sure, it's an upside opportunity. And it's taking us to either compete with guys on this part, the part that we were missing and now completed by Microsoft, that's the part where Salesforce was dominant and places like that, all in-house IT solutions that we've done, so we definitely see that as an absolute opportunity. I think this partnership is a great one. It's taking us also in opening doors for us that maybe in certain accounts, we didn't have relationship before, and definitely a great opportunity to get closer seat at the table around everything that is

related to generative AI, which is much bigger than the initial thought that we had behind this partnership and very meaningful as generative AI is becoming so -- so positively, I would say, potentially influencing everything we do.

Maybe a point about that, we've been using AI forever. When we thought over the years about how we leverage automation into making everything we do better, of course, we used a lot of AI and machine learning. So we've experienced with that, both internally as well as offers to our customers. And now with generative AI, we think it's an exponential opportunity to accelerate and come with new use cases and we're definitely looking into that as a positive driver.

David Wicks

Any other question from the audience? We might have time for 1 or 2 more quick ones. If not, Tamar, I'll want to just touch upon the last pillar, and that's the next-gen network automation. Can you talk about how Amdocs and what Amdocs is bringing as far as innovation in network automation?

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

So when you think about our unique situation, we are coming historically for many, many years from the part of understanding who is the customer, how to provide a better customer experience, how to monetize the customer and the network used to be a physical layer. And then over the years, more and more of our capabilities were built in terms of both organically investing in that as well as acquisitions we've done over the years, realizing that the network is becoming more and more virtualized.

And this is meaning that everything around the network element is becoming software-defined, meaning there is a better opportunity to connect between the customer, the service the customer is consuming and what is the activity needed in the network, both in terms of fulfilling that service as well as measuring the quality of service. And we mentioned before, 5G, for example, where the quality of service can finally be committed and managed and connecting that to how you monetize that and price that service.

So we have a unique opportunity to actually be a player in that space, something that we are seeing as an emerging and big investment area for our customers with the complexity of everything going on with the scale they need to manage and think about the fact that for many, many years, there will still be even hybrid networks, right, some physical elements, some of which will -- the complexity is becoming impossible to manage manually. And of course, the more and more they automate, we see a bigger opportunity, both in terms of how to design new services, how to fulfill those services, activating the right part of the network and then measuring and managing the quality of service that they want to provide.

David Wicks

All right. Well, with that, I think we're at the half hour. So Tamar, thank you so much, and I hope everyone enjoyed this chat.

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

Thank you very much, everyone.

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