

AMDOCS Q4 2021 CONFERENCE CALL SCRIPT
November 2, 2021
5:00 pm

Matthew Smith, Head of Investor Relations

Slide 2: Disclaimer

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, the duration and severity of the COVID-19 pandemic, and its impact on the global economy, 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, 2020 filed on December 14, 2020 and our Form 6-K furnished for the first quarter of fiscal 2021 on February 16, 2021, and for the second quarter of fiscal 2021 on May 24, 2021, and for the third quarter of fiscal 2021 on August 16, 2021.

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.

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, joint Chief Financial and Operating Officer.

Slide 4: Earning call agenda

To support our earnings call today, and, in the future, 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.

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On today's agenda, Shuky will provide an update on our recent strategic progress and business performance, and Tamar will review our financial results and outlook for fiscal year 2022.

Finally, we invite you to join us for our Fiscal 2022 Analyst & Investor business update which will be a virtual event, webcast live on Friday, November 5, at 9:30 am eastern time. Please visit the investor relations section of our website for more information.

Slide 5: Shuky Sheffer

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

Shuky Sheffer, Chief Executive Officer

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

As Matt mentioned, today, and going forward, we are providing an earnings presentation alongside our remarks. We hope you find this additional information helpful in understanding our company as an investment opportunity.

Slide 6: CEO Strategy & Business Update

I will first start today's call by recapping our business and financial achievements for the full fiscal year 2021. Second, I will update you on the main pillars of our strategic growth framework and the significant progress we have made with key updates from the past quarter.

Finally, I'll wrap up by summarizing our expectations for another year of **accelerated** growth in fiscal 2022, after which Tamar will provide the detail on our financial performance and outlook, as well as perspective on the overall environment, 12-month backlog and capital deployment.

As a reminder, our comments today will refer to certain financial metrics on a pro forma basis where applicable to provide you with a sense of the underlying business trends excluding the financial impact of OpenMarket, which we divested on December 31st, 2020.

Slide 7: Thank you for a great FY21

I'm on slide 7. Let me begin by saying that I couldn't be **prouder** of our **achievements** in fiscal 2021.

This was a pivotal year in which we began to see the results of our strategy to drive **accelerated** revenue growth, and much **credit** belongs to our global base of **talented** employees and **experienced** leadership team.

Operating in a hybrid model amid the global pandemic, our people executed **exceptionally** well this year to meet the mission critical requirements of our customers, and they did so while embracing our culture of **continuous learning** and **upskilling**.

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I am also proud that we constantly found ways to demonstrate our corporate purpose and values, such as by providing support for the communities in which we live and work. As an example, in the Philippines, we recently ran a project to improve digital access and skills in peripheral communities, which included employees volunteering hundreds of hours to develop career planning, technology and upskilling webinars, tailor made to the needs of thousands of students from more than 25 schools. This is just one inspiring story among many at Amdocs.

I would like to take this opportunity to acknowledge and thank all our people for the **commitment, creativity, and dedication** they have shown working **together** to serve our customers, partners, communities, and one another over the last year, and I am **confident** we have the **talent, spirit, and values** to achieve even more in the future.

Slide 8: Inflection point for accelerated growth

Moving to slide 8, let me address the operational and financial highlights of fiscal year 2021. I believe Amdocs is at an exciting **inflection point** of **accelerated** revenue growth and it is worth taking a moment to quickly recap some of the key factors which have led us to this point.

First, we accelerated **our** investments in research and development by more than 10% in fiscal year 2021 to further position us as the market leader with the best technology and most relevant offerings to support our customer's investments in industry **megatrends, including** digital modernization, journey to the cloud, and 5G.

Second, we divested a non-core asset, OpenMarket, and executed on the strategic acquisitions of **Openet** in August 2020, and **Sourced Group** in March 2021 to further accelerate our technological capabilities and services expertise around 5G and the cloud.

Finally, we **strengthened** our competitive **advantage** and established ourselves as the industry's **leading transformation partner** to build their next-gen platforms, great examples of which include multiple project awards at **AT&T**, recent modernization wins at **3UK**, and the digital transformation with next-gen hybrid cloud-operations we are accelerating for **T-Mobile** under a multi-year managed services agreement.

Slide 9: Strong performance in full year fiscal 2021

All in all, we finished fiscal year 2021 in a strong business and financial position as you can see from the highlights on slide 9.

- We delivered **accelerated** pro forma revenue growth of 7.0% in constant currency in fiscal year 2021, driven by **healthy** customer activity across North America, Europe, and Rest of World.
- Our sales momentum continued through the fourth quarter, which we ended with **record** 12-month backlog of \$3.7 billion, up 10.5% from a year ago on a pro forma basis.
- We **improved** non-GAAP operating margins by 30 basis points and achieved our **highest-ever** number of customer milestones which we converted into **record** cash collections and **record** normalized free cash flow generation of \$869 million for the full year.

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- Moreover, we **delivered** on our target for **double-digit** total shareholder returns in fiscal 2021, including **accelerated** pro forma non-GAAP earnings per share growth of nearly 10.0%, plus our dividend yield.

Slide 10: Progress of Strategic Domains

Now, turning to slide 10, let me update you on our recent progress against our strategic imperatives. As a reminder, we have a **simple** and **clear** growth strategy to bring market-leading innovation to support our customer's critical business needs, and to provide an amazing experience to consumers and enterprises in:

1. **Journey to the cloud**, to accelerate **cloud** adoption across all platforms of our customer base
2. **5G monetization**, to support exciting new **5G** use cases
3. **Digital modernization**, to enhance customer experience and transform operations
4. **Network automation**, to deliver and automate dynamic, real-time network-based services

During Q4, we made significant progress across each of these pillars. In cloud, we are thrilled that **AT&T** has selected us for next-gen cloud operations of its business support systems evolution (BSSe) under a long-term agreement.

- BSSe is a technology modernization and simplification program focused on increasing speed-to-market, improved customer experiences and long-term cost effectiveness.
- As previously announced, Amdocs is already in the process of modernizing AT&T's consumer mobility domain, and this new award expands that activity. Under the new BSSe engagement, Amdocs will provide its deep set of cloud-native products and next-gen cloud operations under a long-term agreement. Moreover, the project will be run on Microsoft Azure, starting with AT&T's consumer business units which include mobility, broadband and IoT.

Additionally, I am pleased to share that AT&T has extended through 2026 the managed services agreement signed in 2019 for the consumer domain.

Moving on to **5G monetization**, Amdocs remains at the forefront of the industry working with leading service providers to enable new and exciting 5G experiences.

- During Q4, we were selected by **Orange** to provide the business support systems for Europe's first 5G **Stand Alone experimental** cloud network, launched this July in, France.
- In 2021, Amdocs engaged in dozens of new 5G **operations** and **monetization** projects across **multiple** countries and customers, including **AT&T, T-Mobile, Three UK, Verizon, Korea Telecom Corporation, LGU+ Korea and others.**
- As more 5G standalone networks are launched around the globe, we expect a growing number of service providers will see the benefits of Amdocs' expertise for unlocking the monetization potential of 5G by creating new capabilities, unique business models and game-changing opportunities.

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Turning to **digital modernization**, we continued to see strong business momentum with several new wins this quarter.

- We expanded our relationship with **Veon** to ramp-up new digital services for its consumer and business customers in **Uzbekistan and Kazakhstan** under a **seven-year** agreement.

Additionally:

- We expanded our strategic collaboration with **Globe Telecom** in the Philippines to provide the Amdocs Catalog and Commerce Suite to improve digital experience for its mobile and fixed-line customers.

Finally, this quarter, we continued to build the growth momentum of our **network automation** offering by successfully providing an end-to-end service orchestration solution for **SES**, the world's leading global satellite operator, that enables SES to support customers with service innovation and delivery agility for its satellite-based hybrid and open-cloud network.

- In a further expansion of the industry-leading collaboration between the two companies, Amdocs has also been engaged by SES to provide a network services assurance solution.
- We have extended our strategic partnership with **Globe Telecom** to include the Amdocs Service and Network Automation suite to power Globe's cloud and digital-to-network automation journeys quickly and easily.

Slide 11: Looking ahead: sustain accelerated growth in FY2022

With that backdrop, let's turn to slide 11 and our fiscal year 2022 outlook. We believe we are in the early innings of a multi-year 5G and cloud-driven investment and transformation cycle. We see a rich pipeline of opportunities across the communications industry to enable our customers to create amazing experiences for consumers and enterprises.

We are laser-focused on converting these opportunities in to backlog growth in the coming quarters, leveraging:

- Our **cutting-edge** technology, which supports the future roadmap of our customers and further extends our competitive lead in the market
- Our execution track record and
- **A highly skilled**, customer-centric talent base, delivering value to our customers around the world

Tying everything together, we expect to deliver **accelerated** revenue growth of roughly 8% assuming the midpoint of our guidance on a pro forma constant currency basis in fiscal 2022.

Moreover, we are positioned to deliver **double-digit** expected total shareholder returns for the **second year running** in fiscal 2022, including:

- Pro forma non-GAAP diluted earnings per share growth of 10% assuming the midpoint of our guidance range, and

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- Our dividend yield of ~2% based on the **new** quarterly rate of 39.5 cents per share which is proposed for shareholder approval at our upcoming annual meeting in January.

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

Slide 12: Tamar Rapaport-Dagim

Tamar Rapaport-Dagim, Chief Financial Officer & Chief Operating Officer

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

As a reminder, my comments today will refer to certain financial metrics on a pro forma basis, which exclude the financial impact of OpenMarket, which we divested on December 31, 2020.

Slide 13: Q4 & FY2021 Financial Highlights

Turning to slide 13, I would like to echo Shuky's comments that we are **very proud** of our financial performance for the fourth quarter and fiscal year 2021.

Let me start with our fiscal fourth quarter performance.

Record Q4 revenue of \$1.09 billion was up 10.2% year-over-year on a pro forma constant currency basis and was led by our **best-ever** quarter in North America. Revenue was above the midpoint of guidance, despite an **unfavorable** impact from foreign currency fluctuations of \$5 million relative to guidance.

Moving down the income statement, our Q4 non-GAAP operating margin of 17.5% was in line with the **high-end** of our long-term target range and **improved** by 30 basis points from a year ago as accelerated R&D investments were more than offset by a focus on operational excellence and the divestiture of OpenMarket.

On the bottom-line, diluted non-GAAP EPS was \$1.16 in Q4, which was consistent with the midpoint of our guidance range. As we have said in the past, our non-GAAP effective tax rate may fluctuate throughout the course of a fiscal year. In the fourth fiscal quarter, our non-GAAP effective tax rate was 20.2%, above the high-end of our annual target range of 13% to 17%, but consistent with our expectations. For the full fiscal year 2021, we reported an effective tax rate of 15.4%, which was within our annual target range.

Diluted GAAP EPS was \$0.97 for the fourth fiscal quarter, above the midpoint of the guidance range of \$0.91 to \$0.99.

Summarizing fiscal year 2021, we delivered **accelerated** revenue growth of 7.0% on a pro forma, constant currency basis, which was ahead of our original guidance for the year. This outperformance was primarily due to a stronger than expected performance in the core business, as well as a small contribution from the acquisitions of Sourced, ADK and Clearbridge which we executed during the year.

On the bottom-line, non-GAAP diluted earnings per share growth **accelerated** to 9.8% on a pro forma basis in fiscal year 2021, driven by the faster pace of revenue growth, an improved non-GAAP operating margin and the benefits of our share repurchase activity during the year.

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Slide 14: Leading Indicators and Business Resiliency

Moving to slide 14, the **strong** sales momentum of the last several quarters continued in Q4, resulting in **record-high** 12-month backlog of \$3.69 billion, which was up 10.5% from a year ago on a pro forma basis. On a sequential basis, 12-month backlog rose by \$100 million as compared to June 30.

Twelve-month backlog has traditionally served as a **good leading indicator** of our business having consistently averaged around 80% of forward-looking 12-month revenue over the years.

Q4 was also a **healthy** quarter for managed services where revenue grew from a year ago, equating to roughly 59% of total.

Our multi-year managed services engagements underpin the **resiliency** of our business with **recurring** revenue streams, **high renewal rates** and **expanded** activities with existing customers. For instance, in addition to the AT&T deal that Shuky discussed, this quarter, **BT Group** has renewed its relationship with Amdocs for a further three years to maintain, develop and enhance the BSS platform for BT's EE brand.

Slide 15: Balance Sheet & Cash Flow

Turning to the balance sheet and cash flow, as you can see in slide 15. We are pleased to say that our great progress in achieving project milestones for our customers is translating to invoicing and strong cash collections. This is reflected in DSOs of 73 days which decreased by 2 days year-over-year and decreased by 6 days sequentially in Q4. Moreover, our deferred revenue remained in a healthy position for the fourth fiscal quarter.

Altogether, we generated normalized free cash flow of \$172 million in the fourth fiscal quarter.

For the full fiscal year, normalized free cash flow of \$869 million was significantly better than our prior guidance and equated to a conversion ratio relative to our non-GAAP net income of 140%, well above our long-term average of roughly 100%.

Overall, we ended the year with a strong cash balance of approximately \$966 million, including aggregate borrowings of roughly \$650 million. Our balance sheet is strong, and with ample liquidity we expect to be in a good position to continue to support our ongoing business needs while retaining the capacity to fund our future strategic growth investments as and when the right opportunities arise. Additionally, we remain committed to maintaining our investment grade credit rating.

Slide 16: Disciplined Capital Allocation

Turning to capital allocation on slide 16.

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For the fiscal 2021, we returned \$857 million to shareholders, including \$177 million in annual cash dividend payments. For the year, we deployed \$680 million towards share repurchases, which included the net proceeds received from the divestiture of OpenMarket, and we accelerated our buyback program in Q4, repurchasing \$140 million during the quarter.

Looking ahead to fiscal 2022, we expect normalized free cash flow of approximately \$650 million. Our outlook roughly assumes a 100% conversion rate of non-GAAP net income and excludes anticipated capex of about \$131 million as we complete the development of our new Israel campus.

Regarding our capital allocations in fiscal year 2022, we expect to return the majority of our normalized free cash flow to shareholders. This includes dividends, for which we are pleased to announce a proposed increase of roughly 10% in our quarterly cash payment to a new rate of 39.5 cents per share, subject to shareholder approval at the annual meeting in January.

Slide 17: Initiating Q1 & FY2022 Outlook

Now, turning to our outlook on slide 17.

The prevailing level of macro-economic, business, and operational uncertainty surrounding the magnitude and duration of the COVID-19 pandemic, including its novel strains, remains elevated. The midpoint of our first quarter and full year fiscal 2022 revenue 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.

With that said, we believe the business acceleration of last year will continue in fiscal 2022, with revenue expected to grow by approximately 6.0% to 10.0% year-over-year on a pro forma constant currency basis. We also expect to generate growth across all three of our key geographical regions.

Our annual outlook includes first fiscal quarter revenue within a range of \$1.08 billion to \$1.12 billion.

On a reported basis, we expect full year revenue growth in the range of 3.7% to 7.7% year-over-year, which anticipates an unfavorable foreign currency impact of approximately 30 basis points year-over-year.

Moving down the income statement, we anticipate quarterly non-GAAP operating margins to track roughly in line with the midpoint of a **new** annual target range of 17.2% to 17.8%. This outlook continues to assume an accelerated pace of R&D investment to support our customers, in line with our strategy, balanced with our constant focus on achieving operational excellence.

Below the operating line, we anticipate that foreign currency fluctuations will continue to impact our non-GAAP net interest and other expense line in the range of a few 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 2022, but above the high-end of the annual range in Q1.

Bringing everything together, we expect non-GAAP diluted earnings per share growth in the range of 8.0% to 12.0% on a pro forma basis for the full year fiscal 2022.

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On a reported basis, we expect to deliver full year diluted non-GAAP EPS growth of 6.3% to 10.3% year-over-year.

Overall, we expect to deliver double-digit total shareholders returns for the second year running in fiscal 2022, including the 10% midpoint of our pro forma non-GAAP earnings per share growth guidance, plus our dividend yield of roughly 2% based on the newly proposed quarterly cash payment of 39.5 cents per share.

With that, back to you, Shuky

Slide 18: Invite to Analyst & Investor Business Update Event

Shuky Sheffer, Chief Executive Officer

Thank you, Tamar.

Before we go to Q&A, let me take a moment to say that I am excited to invite you all to join us for a virtual business update this coming Friday which we are hosting to provide investors and analysts with an appreciation of the strong foundation we have built over the past several years that has positioned Amdocs for continued success in an increasingly digital world. We look forward to discussing Amdocs' strategy and our unique competitive advantages that will support accelerated growth and continued success into the future.

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