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DOX.OQ - Amdocs Ltd Supplemental Investor Call

EVENT DATE/TIME: APRIL 08, 2021 / 12:30PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by, and welcome to the Amdocs investor call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Matt Smith, Head of Investor Relations. Please go ahead.

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, the duration and severity of the COVID-19 pandemic and its impact on the global economy and such other risks as discussed 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.

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 Financial and Operating Officer. Finally, a copy of today's presentation slides will be posted on the Investor Relations section of Amdocs' website following the conclusion of this call. With that, I'll turn it over to Shuky.

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

Thank you, Matt. Good morning, everyone, and thank you for joining us today. Last week, on March 31, a short seller report was published by a previously unknown entity called (inaudible) . As we said in our press release last week, the report contains inaccurate statements, groundless claims and speculation, they were solely designed to derive the stock price downwards to serve the short-seller interest and to the detriment of Amdocs shareholders. Our intention with today's call is to provide color and more details on our business. As you saw, we published a supplementary investor presentation early this morning, which we'll walk you through today.

Tamar and I will provide overview of our business and walk through our strong financial performance, cash generation and capital return to shareholders and the global organization we have built to ensure optimal efficiency and local compliance across our operations. Our financial outlook remains strong. We are fully confident in our accounting and business practices and believe that the company is well positioned to build on its success and create long-term shareholder value. Frankly, we have no idea who (inaudible) is. We don't know who is behind the report, and no one has contact us. We are very surprised to see the report and believe there is no merit to it. I will now begin to walk through the presentation, followed by Tamar, and we will open the call for a Q&A.

Matt, can you go to the agenda slide, please? Okay. So this is the agenda that we are going to cover today. I will start with a short overview of Amdocs, and then Tamar will continue with our strong financial foundation, legal entities and auditors, cash position, and then we'll open the call for Q&A. Matt? Next slide? Another one?

So I'm sure the majority of you know Amdocs, but to those who are not, Amdocs is the (inaudible) the market leader in our space, which is in the telecommunication and media industry in the -- obviously, in the information technology system, OSS and BSS system. Just by the numbers, you can see on the right side, some interesting numbers I want to share with you. So the revenue, this is pretty much public, $4.2 billion. We have 26,000 employees, and we are operating in 85 countries.

Our estimate that every -- pretty much across the world, 3 billion people are touching Amdocs system, and we are managing roughly 1.7 billion digital journeys per day. We have over 350 customers. And I think that you can see the list of customers that we are very proud, blue-chip customers. We were very successful in the last year to -- actually to expand globally. So if we go from the United States, or obviously, our major customer AT&T, T-Mobile, Charter, Comcast, Cellular. In Canada, Bell Canada, Rogers, TELUS. In Latin America, our main customer, obviously, are the main groups over there is Telefónica and America Mobile. If you go to Europe, Vodafone is a huge customer of us between the different opcos. In Italy, Germany, Spain, U.K., Netherlands, we are now working with Vodafone on what really one of the largest automation involving Vodafone Germany.

Sky, the 3 group, BT and all -- Xeon, all the big, I would say, operators in Europe are working with Amdocs. We are definitely the market leader in APAC. Between Singapore Telecom, Optus, Globe in the Philippines, Maxis in Malaysia. We have a lot of operation in Indonesia, et cetera. So you can see all the list of customers, as I mentioned in Verizon also in North America. As I mentioned, we are very proud with this blue-chip customers. And you can see our leading position is very much statutory on the global view.

Matt? As I said, a very unique business model. So there are software companies, and there are services companies. Amdocs is what we call a product-led service company. Because we are doing mainly 3 things. We develop software. So all our BSS and OSS platform that serves the big companies in the industry. So this is what we do. We have major R&D centers to develop this -- or this software. Obviously, today, it's only cloud-native, and I think that we have cutting-edge technology in our software. We do the deployment of our products. So we are not just developing the product itself, but we are having the high-level consulting, all the implementation deployment services for our products.

We have unparalleled production per quarter. So the company is develop -- going -- taking pretty much 80 production per quarter. And I think by far, we are the market leader, we have many tens of transformation as we speak, all over the world. So we are not just -- so we are developing the software. We are doing deployment services, and we also operate our system in many cases, in the managed services form. This unique accountability is, I think, that Amdocs claim for fame, no one has this, and this is what's helped us to be the market leader in our domain.

There was some reference for us as a BPO company. I can tell you, we are so far, we are nothing but a BPO company. You can see what type of offering we are giving to the market. And as I said, it's a very, very unique offering. And this accountability model is very unique to Amdocs and help us a lot to be in the market-leading position that we are today. Matt?

So how can we do this globally? So Amdocs have many centers around the world. You can see -- it's between we have R&D centers. We have a software development center, and we have operational center. What you see right now on this illustration is not all of them, we have much more. And actually, we are leveraging these global assets to deliver the services to more than 350 customers across the world in the most efficient way. As we operate all this, obviously, as we operate at 85 countries, this is what comprised for 155 legal entities. But as I said, we build competitive centers and R&D centers to make sure that we maximize efficiency, we maximize talent in the different territories. We have like over the sun type of support for our customers. A lot of sort have been done in order to build this global infrastructure that support, as I said before, over 350 customers in 85 countries. Matt?

So probably by now, we understand that I'm very proud with Amdocs position in the market. So it's not only us thinking that we are the best. There is a huge market recognition that we are #1 in our space. You see some of it on this slide from the gardens of the world, and as I mentioned, this is both for services and our products. So I think this represent what the industry analysts think about Amdocs leadership in our domain. Matt?

I will finish with that, which is, again, another area that -- domain that we are very proud is the long-lasting expanding relationship that we have with all our customers around the world. So you see the list of number of customer from T-Mobile to Vodafone, Verizon, Bell, Comcast, Charter, Telefónica. We are very proud. So not just that we are having a great strategic partnership with this type of customer, but this is a very long-lasting relationship. I get a couple of examples here. We start from left to right, AT&T.

Now we are expanding our activities in AT&T. Actually, our revenue grew year-over-year. We are busy right now in building the next-generation consumer mobility for AT&T, as part of AT&T 5G strategy. We have managed services and AT&T. We have network activities in AT&T, AT&T Mexico, Cricket. We have a lot of activity in AT&T, and we see a very good progress now of modernization activity with our activity to modernize AT&T consumer domain.

T-Mobile USA, another good example of strategic account that used to be before 2 accounts of Amdocs, Sprint and T-Mobile, before the merger. We just announced in February a strategic long-term deal with T-Mobile US that comprise, obviously, transition of all the system of T-Mobile toward the Amdocs one cloud-native platform, cloud operation and many other activities. This is a very important agreement that we are very proud of and actually reflects the strategic partnership that exists today between Amdocs T-Mobile. So overall, you can see we have a very, very strong position with our customer. We see very nice consistently growth across all geographies, and we continue to push forward and getting more customers and continue to serve our existing customer in the best way we can. With that, I will move to Tamar's part. Matt?

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

Thank you, Shuky. So with all that business capabilities and strategic focus we have, a business model, unique business model that translates to strong financial performance and strong consistent operating margins. And when we look on the different characteristics of how this business model is translating to financial metrics, as you know, we publish every quarter a metric called, 12-month backlog. And the 12-month backlog provides us strong visibility into the years to come.

Usually, we start a year with around 80% visibility to the next 12 months' revenue as presented already by this backlog. In addition to that, In general, we have highly recurring revenue streams. In many engagements, long-term engagements with our customers, we enjoy high recurring revenues. All of that is helping us plan and prepare for the execution of the commitment and the value that we are providing our customers. We are leveraging on the scalable global resource model based on the different centers around the world that Shuky described. And it was not just about locations, but about building different competencies around the world. And whenever the demand is planned, we are obviously, again, that planning very accurately how we're going to supply this demand, including taking into consideration time zones, talent availability, competencies, cost structure, et cetera, et cetera.

So all of that is helping us create a good visibility on how we are planning our business. On top of that, of course, we would like to continuously create operational excellence into the business, bring efficiencies, bring savings in how we do things. So the savings and benefits from these efficiencies in our performing engines can be redeployed by (inaudible) into new investments. Investments in R&D, we mentioned before, we're investing around $300 million of R&D. We have accelerated R&D recently.

We are investing, of course, in penetrating into new countries, new load acquisitions, et cetera, et cetera. So this balancing act that we see, this ongoing balancing act help us to drive new customer penetration, new market penetration as well as over time, as you can see in this chart, constantly report on operating margins that are tracking at the higher end of our prevailing guidance range at that time. And over time, enable us to trend upwards with the operating margins that the business results in.

So when you look at all of that and what does it mean in terms of generating cash, we've also shown a proven history of consistently converting over time those earnings into free cash flow from the business. You see here a full decade. So obviously, in any given year, there may be performance that is below or above the 100% early to cash conversion. But over time, you can clearly see how we are tracking on par.

In fact, in this year, specifically in 2021, after already having very strong 2 years of cash generated from the business. We are -- we have guided at the end of December for the fiscal year 2021, a conversion rate of 130%, with the $800 million of normalized free cash flow, of which our first fiscal quarter ending December already generated close to $390 million. So it's not only projection, some of it has been actual in Q1 already.

So when we look on this ability to collect money from our customers. Obviously, the (inaudible) model, the track record we have on delivering to our customers is translated into invoicing and collecting money from our customers, managing efficiently ongoing spending and converting earnings to cash and par over the long term.

Let's move forward. When we're thinking about what it's been to manage a multinational business with 155 legal entities, serving 85 countries, it means that we are dealing also with a lot of local compliance in different countries. One of that implication is that you by, in many countries by regulatory requirements in country, something called statutory financial statements. However, the business performance is best represented by the consolidated financial groups. Consolidated financial groups cannot be established through aggregation of some local subsidiary reports of specific subsidiaries. Definitely, it cannot be done by taking a selected number of 17 agencies out of the total number of 155. And just to remind you, a selected entity of 17 mainly focusing on Europe definitely does not represent our global business in which North America, i.e. U.S. and Canada, represent the majority of 2/3 of our business. And it also means one key operation that we have, which is Israel. So again, just by over example, how 17 entities cannot be representative of the full group. On top of that, in consolidation, there is accounting that requires you to delete, eliminate intercompany transactions.

Sorry for getting technical here, but I do want to explain that point to an illustration. We have tried to simplify our real life for this illustration on this slide. Let's assume there is a deal with an end customer by Amdocs U.K., in which we are selling a relatively small project of $10 million digital transformation that includes 1 software model, and includes services of deploying that software into production until it goes live, which is part of what we do in many of the projects with our customers.

So now Amdocs U.K., who signed an agreement with the end customer of $10 million in this illustration is engaging internally in the supply chain of the Amdocs Group, other legal entities in the group. In this illustration, it's buying the software from Amdocs Cyprus for $2 million, it's buying some services from Amdocs Israel for $3 million and buying some services from Amdocs India again for $3 million. If you simply aggregate now, all this revenue recorded by those 4 individual legal entities. And let's assume each individual entity in this illustration, 5 financial statements for compliance purposes locally just on this transaction, again, very simplified.

You add that $10 million plus, $2 million, plus $3 million, plus $3 million, you get to $18 million. Obviously, the deal and the value that Amdocs Group generated is $10 million. It's not $18 million. So you're just over inflected by $8 million. If you continue to do that and just ignore elimination of intercompany transactions, you also obviously have twisted expenses on the other side. So you can not draw conclusions from selecting 17 entities, taking the local financials, ignoring elimination of intercompany transactions and then try to compare it to the group numbers. Adding to that, additional 2 issues in that methodology attempted in the short seller report. While it's ignoring accounting standards to vary between countries. At a group level, we reported U.S. GAAP and of course, all the numbers of all the transactions, all the activities are allowed to use GAAP when we file our consolidated financials with the SEC.

When you file locally in different countries to comply with local regulation, you apply the local GAAP relevant in that country. For example, in Europe, in many of the countries, it's IFRS. In some European countries, it's still very specific GAAP for that country. Another problem is the methodology applied in the short seller report is ignoring different fiscal years. Amdocs Group is reporting by September year-end. And again, with all the activities in everything with around the world is aligned to fiscal year ending September 30 in our group financials.

When you look on the local subsidiary, reports filed for statutory purposes, different year-ends may apply usually by way of practice in that country. So for example, in Cyprus, the local statutory report is December year-end. In Dublin, in Ireland, it's December year-end. In India, it's March. So if you just add those numbers that are -- for different total year-ends, obviously, you'll get a mismatch of a different set of numbers that are not relevant.

So all of that is just to explain why we think that the whole design of the attempt that was done to select few legal entities, add numbers that do not add together then try to find from that, the group financials or some correlations to the group's financials, we think it's flawed by design. And as we've said before, we believe our accounting is rigorous. We are very confident in Amdocs financials. We are generating constant operating margins, and we are translating those margins into healthy free cash flow from the business, which is at par over time.

Let's move forward. I want to touch on the legal entities and auditor's topic and explain practically how we are looking on this topic. Again, just to run a business over so many countries and activities, you need to be optimal in how you operate in countries, and which means typically you need to open a legal entity at least 1 per country. So that's why (inaudible) we see may say, okay, so you have 85 countries, why don't you have 85 legal entities, while you have 155?

Because over time for different reasons, we have more coming in usually by M&A. With every M&A that we do as a company, we inherit, first, the legal entities that are coming with the acquired business and then we can try and rationalize over time. So not organically, we inherit over the years, many entities beyond the ones we decided to open ourselves.

Now we intentionally and strategically try to rationalize the number of entities and reduce it over time. So in the past few years, we have dedicated tasks for the dedicated program to try and rationalize the numbers and structure of our legal entities, and we've managed actually to reduce dozens of them over the last couple of years. But at the same time, as the team handling this always tells me, they feel like they're swimming upstream. Why? Because with any M&A, a new batch of legal entities are coming in. So just by way of example, the recent acquisition we've done last summer of Openet, that by itself brought in 12 new legal entities. So that's how we're thinking about this, and we will continuously try to optimize the legal entities and the structure to support the global business and the operational model that should be described before.

Moving forward, when we look on this and the implication of that for audit purposes, when you have local subsidiaries around the world, in many of the countries, You are required to file the statutory financial statements with a local auditor signing off on those financials, which means we need to appoint different auditors for those entities. I want to emphasize none of our subsidiary level standard auditors initiated any resignation. We, at our own initiatives, conducted an RP in 2018 for Audit Services in EMEA in order to rationalize 27 different audit firm engagements we had down to select few. Again, one may ask is how do you get to 27 different audit engagements, mainly over time through M&A. We inherited legal entities, and we inherited them also with their predefined auditors that we did not appoint ourselves. And going through these projects after issuing this RFP, we successfully concluded and the outcome of this process resulted in the big 4 local affiliates remaining the auditors for our key EMEA business subsidiaries, including those that were mentioned in the report: Ireland, Cyprus, the U.K. While we have moved to non-big 4 firms, For the majority of the remaining subsidiaries selecting reputable non-big 4 firms that are working with other multinationals on exactly the same kind of service of auditing for compliance purposes locally in country.

And in accordance with local practices and regulation in many of these jurisdictions, the auditors may formalize our initiated replacements with a resignation letter, which is just a formal action. As the group financials, as part with the SEC, it's a totally different topic because the group financials when their auditors have been audited by in for many years, actually since 1988 and definitely since we were public in 1998. It's in NY, New York, who has been auditing our financials. And this is filed with the SEC. This is the set of numbers we are talking to investors and the whole public when we're talking about our financial statements. The responsibility of E&Y, when they are signing off on the audit of the group financials is not defined in any way, which means that whether it's in white corn affiliates or other local audit firms, They are not relied upon in the consolidated audit. So the team of BNY in New York who is leading the global audit of Amdocs is taking that responsibility.

And all the opinions have been unqualified over the years. On top of that, just by way of best practice, which is very common, BNY is the firm is doing partner, the lead partner station every several years to have a new set of us to look in our financials and to look on the company control. Again, a very common aspect of the big 4 firms.

Moving forward. I want to address the point around the balance sheet and cash, which I think is extremely important. And we are very proud about the strength of the balance sheet and disciplined capital policy framework we have exercised over the years and talked very openly with investors about.

So to remind you, our guiding principles have been always maintaining a strong balance sheet and investment-grade rating. Both by S&P and Moody's, we have an investment-grade rating for many years. We ensure continued customer confidence. We are serving our customers in mission-critical systems in long-term engagement. Obviously, we want those relationships to have tenacity and the duration for many years, and we want them to feel comfortable with our balance sheet. And we retain sufficient cash for working capital purposes as you would expect this to. Then the operational considerations as a global company operating in many countries, we continuously optimize our cash and move cash as needed for the operations at the group level. And I want to emphasize at the group level, this is not done at an individual legal entity level.

So the group -- as a group, we can move cash around where we need it, where we collect the money. Sometimes it's not where we actually need to pay suppliers or payroll, so we have the flexibility to move cash around. The whole notion of insignificant level of track cash is extremely important here. And why -- I want to refer to the term track cash. First of all, if you ask me, do we have cash that we cannot access at all, I would say it's close to 0. So when we talk about, about $60 million so-called tracked cash, what I refer to is cash that is used, we need to pay some extra tax cost. But even if we do pay this extra tax cost in equating the less than 1% of the group cash balance, i.e., immaterial. So we do not have an issue of trapped cash. And this $60 million is not something we need to tap into until we find a solution for the tax cost.

And by the way, if we do, we will pay the several million dollars and use that cash. We do not have any external requirements to maintain a minimum cash level, not by customers, not by anyone else. And we are investing our excess cash in a very conservative manner. We are giving full disclosure on the investment vehicles and our investment policy in the field the 20-F and in net refining on a quarterly basis. And you can see we are investigated highly rated securities, whether it's money market fund, treasuries, highly rated corporate bonds or about the cash with Tier 1 banks.

When we think about the company in our size, naturally beyond the fact we do generate very healthy cash flow from the business, as I presented before, we want to have different sources of liquidity. And we have -- and we want flexibility. So in the last year, we issued a 10-year bond of $650 million. It happened in June 2020 at an historically attractive rate of 2.538%. Very happy about this. We feel it's providing us with capacity to fund strategic growth investments when the right opportunities present themselves and to have that firepower available. On top of that, we have, I would call more tactical tools. For example, we have a $500 million credit revolver that we use from time to time on the tactical vehicle to optimize cash efficiency. Why do we need it if we have so much cash available already within the group? Because from time to time, it's more economical to draw for a few weeks, money from the facility, pay a small amount of interest, rather than maybe take securities we invested in, or take deposits in banks and break them. So we're doing an economical quick exercise of calculating whatever. And then if needed, we are tapping into the facility.

The last time we've done such a short term to run the facility was actually way back in, I believe, the second quarter of 2018. Last year, due to the pandemic, like many other companies, just for precautionary measures, we draw in the facility around $300 million but repaid in taxes.

In addition to that, another vehicle we put in place in 2018 was the factoring program, we used it very little. Even in 2018, it was very immaterial in usage, and since then, we even reduced using the factoring. So I don't think it's fairly significant to the overall picture of our cash or cash flow. Just to be clear, all of the strong cash flow that we preformed over the last 2 years and the strong indication we provided this guidance for fiscal '21 is not relying in any way on this factoring, and it's all coming from strong collections from our customers.

On top of that, we recently decided as part of our strategic process to sell open market that was noncore to our strategy. We sold it in November 2020 for around $300 million of cash. And as we said in our February 2 earnings call, we are going to return the majority of that cash to shareholders. On top, way and above the regular buyback that we do and the regular dividend that we do. So just to be clear, it's on top of all of that.

Moving forward to the next slide. So when you look on one of the major uses of cash, which I think is of strong interest to the investors community is our consistent return of cash to shareholders. We've been introducing the dividend already in 2012. So it's running for many years now. We pay dividends every quarter since. We increase the dividend every year since, including 2020, the pandemic year, we increased the dividend double digit. And we've been consistently buying our own shares. You can see in this chart that over the 5 years presented here, on average, we returned over $0.5 billion per annum to shareholders in the form of share repurchase and dividend, and that's roughly reflecting 101% in the aggregate for the 5-year period of normalized free cash flow generated in that period. So we are clearly very consistent and continuingly returning cash to shareholders. And as I said before, to top that up with open market sale process, we are going to even do more than the usual in 2021.

So very strong business model, strong position, very excited about our strategy. We are continuously tracking our operating margin in a consistent manner and converting that into cash flow from the business, which is then invested conservatively and used for growth initiatives and our strategy buildups as well as continuing to return cash to shareholders over the years. I suggest we'll open it up now for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tim Horan with Oppenheimer.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Just a brief question. Why not accelerate the stock buybacks with a pullback? And secondly, can you just describe your software in a little bit more detail, how unique is it and how scalable is it? I guess how transferable is it from client to client?

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

So on the buyback, just to make sure I heard well, Tim, the question was, I believe, on the acceleration of the buyback from the open market sales consideration. That happens as soon as we got the consideration at the end of December. And as we said before, that is planned for over a couple of months, obviously subject to regulation of how much fair activity we can be involved in terms of market trading in any given day.

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

The second question was about the...

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

The second question was about the software product and the...

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

We have a very unique software offering. We actually, over time, we built a complete full stack to support BSS OSS solution for the largest customer award. And it means that we are covering all the aspect of the business from the commerce activity to the billing activity, to the network provision activities, charging rating obviously, a CRM system. So what we call it open and dynamic. I mean on one hand, you can take the full stack from Amdocs and to end like, for example, what we do right now in Vodafone Germany. It's a full end-to-end transformation from commerce back up to the provisioning the services and the network.

This is very unique. The majority of our customers have pieces of the solution, and we are the only one that has a pre-integrated solution end-to-end. Also, we have allow our customers to -- obviously, to pick and choose based on business needs, how to implement. But this is a very, very unique software stack, everything is cloud native. We have great relationship with Amazon, with GCP and with Microsoft. And we are -- I think that we have the cutting-edge technology in our software, and this is I think recognized by industry analysts. But really, from an overall full stack solution, this is -- we are the only one that can get all the solution from the commerce up to provisioning, the services and the network.

Operator

Our next question comes from Tal Liani with Bank of America.

Tal Liani - *BofA Securities, Research Division - MD and Head of Technology Supersector*

Thanks very much for the extra explanation of the entities. Are there any accounting benefits to having entities? Is there any tax benefits? When you move forward, you look at the next few years, do you think you'll maintain the same structure of having entities? Can you talk about the benefits of the company from having these entities?

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

I would say it's kind of -- I would say, a necessity just to run the operations and the engagement with customers. So even before we're going to accounting and taxes, it's like, first of all, it starts with how we need to operate and where we are signing business with customers. And as we said, we are active in 85 countries. We need to pay payroll to employees, pay few or -- different services from vendors. So You need to have the structure to do that. And the structure to do that involve legal entities in different countries.

At the same time, you want to do it in the most efficient manner in terms of how much it costs you to run this structure, what does it imply in terms of compliance. As I said before, many countries have their own local compliance requirements in country, which obviously we need to comply with once we operate in that country and have entities there. And then, of course, the tax authority that want their share in the pie. So we are taking that into consideration when we are looking at the activities.

But practically speaking, if you ask me, Tal, the overarching theme is that we are trying to reduce the number of entities that we have because, sorry, it's of them over it that we need to handle and just to do the business and operations of the company, but we want to do it in a rationale way.

Tal Liani - *BofA Securities, Research Division - MD and Head of Technology Supersector*

And I asked about taxes, just is there a tax benefit to having so many entities or entity per country? Is it every country is an entity or every client is an entity? How does it work?

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

No. Usually, every country needs at least an entity to operate. And sometimes there are different considerations on how you structure it. But Yes, of course, tax is part of the equation here. But it's not that for sake of taxing, you just need to add more entities. It needs to be obviously relevant to what's happening in terms of the activity, the functions that are done in that country So whether this is an R&D activity, whether this is a service center to support customer, whether this is a place in which we are actually owning IP assets or that just doing services. So there are many considerations we're looking at.

Sometimes, it's about for an acquisition, what is the acquiring entity. A lot of decisions obviously are trying -- we're trying to optimize that. For example, when we did Converse in 2015, as part of the Converse deal, we naturally look, okay, how should we buy Converse, to which entity? And the decision back then was the majority of the IP assets were acquired through Santos in terms of different aspects that we looked at. So Of course, tax is part in the equation, but this is not the why of why you establish entities. You should be -- the why starts with you need to run operations, you need to sell to customers, you need to have a framework in which you can operate.

Tal Liani - *BofA Securities, Research Division - MD and Head of Technology Supersector*

Got it. Great. I have an odd question, Tamar. Do you know who put out the report? Do you know the identity of the company that put out the report by chance?

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

I don't want to speculate, but we never heard about this maybe for the first time, by the way, everyone that we talked with never heard (inaudible) contact us, but -- so we have no idea who is behind it.

Operator

Our next question comes from Ashwin Shirvaikar with Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc., Research Division - MD & Lead Analyst*

Just a follow-up to that last question, the last answer that you gave, shut. So if you don't know who published the report. I guess that rules out legal action. But have you considered kind of maybe working with regulators to figure out what seems like perhaps was targeting of the stock or any recourse that you can -- action that you can take here?

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

Well, I can tell you that what we do right now is what we do best, focus on the business, focusing on accelerated growth, focusing on return money to shareholders, deliver value to our customers making sure that we have the best employees. I think this is what we are focused on. We are not trying to look for anyone, and this is what we do.

Ashwin Vassant Shirvaikar - *Citigroup Inc., Research Division - MD & Lead Analyst*

Got it. And the legal entity structure and that complexity is fairly common for most global companies. In the example that you gave, Tamar, I mean, obviously, revenues flow a certain way. Work is allocated a certain way depending on client requirements. Does profit flow back the same path or can you flow through a different path? Can you route it to maximize economic return to Amdocs? Just trying to understand.

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

When you look on the allocation of the overall group profit for the different entities, it has to take into consideration what are the functions and the ownership of assets in those entities. And obviously, as any global multinational, we have to, and we are providing very robust transfer pricing policy and studies that are evaluated by the different tax authorities around the world. So when you think about -- eventually, we have the group profit and how you allocate that profit to different entities, (inaudible) has to do a lot with having the right functions allocations the right asset ownership, mainly I'm talking about software, an IP asset ownership and what value you need to assign to the entities in terms of the profit that own those assets. Who is taking which kind of commercial and legal risk in the agreement, vis-a-vis the customer within the group?

So there are many considerations of how you do this allocation in a manner that we make sense from transfer pricing policy of a global multinational. But all of that is -- think about it as like an internal allocation of the value, which has nothing to do with how much value the group makes from engaging with the external world. Because essentially, the money, the profit we make is how much is the deal value we signed with an end customer and how much it really cost us. Everything in between in terms of value take that profit, let's say, my illustration, a $10 million deal with $8 million cost, let's say, that's really the profit to Amdocs is 2, just to simplify. So how you take that 2 and how it then distributed between these different entities, I think has no relative to the fact that it's 2. And the checks that are done both by us have internal and rigorous accounting practices as well as the group all this is done by ENY in New York is to check eventually that the total revenue and the total profit we make from engaging with the external world is the right one. Sorry for the long answer, but I just want to explain to (inaudible)

Ashwin Vassant Shirvaikar - *Citigroup Inc., Research Division - MD & Lead Analyst*

No, no, I think it's important.

Operator

Our next question comes from Tom Roderick with Stifel.

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

So I guess kind of sitting here on our side of the wall, we see these short reports pop up from time to time. We don't often see companies actually respond. And I'd love to kind of hear on your side of the wall, what sort of went into formulating the response? And did your Board gather to discuss the report, did E&Y engage you in any sort of discussion? Did any of your lenders asked for more information? Just from your perspective, what drove the desire to communicate with The Street to respond to this? And would love to just sort of hear what your independent advisers were asking for further information or anything like that?

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

I can start and Tamar will follow. So obviously, we were very surprised with the report last week. As we discussed again, we have no idea with this entity whatsoever. By the way, every -- none of our advisers recognize this entity. But as Tamar mentioned, we saw that after the report is issued. So we issued a very short press release last week saying that we believe the report has no merit into it. And in this week, we thought we should follow up because some of the items in the report were may be more complex to understand. But I think that as part of being transparent to our investor, we thought this is the right thing to do. Tamar, do you want to add something?

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

I just want to add that the timing the report came out was the last day of our quarter. And as usual, we will come early May and report our results and provide an update about the business, et cetera, et cetera. But given that it's still several weeks between when the report came out and when we are normal next interaction with the investors is, we felt that it makes sense to give some more detail now and give some update on how we see those things.

And some of these topics are usually not the kind of things that investors are really focused on, right? I mean number of legal entities and things like that, local compliance of statutory reports. So we thought it makes sense to come out and clarify some of these topics just to be on the safe side.

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

Yes. That's helpful. Shuky, follow-up for you. One of the more salacious claims or in the report was the suggestion that AT&T after 2023 would be looking to move to a different vendor across the board, which, I guess, for those of us that have followed the space for a long time, for those like you that have been in this space for a long time, it would be a pretty extraordinary set of circumstances for a Tier 1 carrier like AT&T to move off a billing vendor point blank, much less to do so in 2 or 3 years. Can you take us through your relationship in more recent times with AT&T that gives you comfort that, that would just be not something that could happen and you're feeling that this is a relationship that's not only stable at the current run rate, but can grow from here?

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

I think that's quoting stable, this is not the right thing. I think that we enjoy now probably one of the top strategic partnership with AT&T. This statement is completely disconnect with what's happening right now. AT&T, as we work on AT&T, what I would say, 1 of the main core engine with the consumer mobility. So bringing with AT&T, a completely new models platform, based on Amdocs One, our cloud-native platform to modernize all AT&T consumer mobility to allow AT&T to compete in the 5G domain, which is probably the most strategic area for AT&T.

So from all -- by the way, we signed 2 years ago, a long-term -- or less than 2 years ago, a long-term

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

End of '19.

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

Managed services agreement. So I can tell you that this is completely disconnected from what's going on in the field. And I believe that we are going to continue to be a strategic partner for AT&T for the years to come. By the way, as I mentioned before, our activities with AT&T is robust. It's AT&T consumer. It's AT&T Mexico, it's AT&T network deployment, it's AT&T Cricket and many, many other things. By the way, we partnered with Microsoft Azure to help AT&T to move applications to the cloud. So I mean, there is -- we are doing testing with AT&T. We are doing security. We are doing all the data for AT&T. So it's really, really robust activity. And I think that the partnership now are stronger than ever.

Operator

Our next question comes from Will Power with Baird.

William Verity Power - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. A couple of questions. Yes, I echo, I guess thanks for hosting the call, essentially gave a lot of helpful background information. So maybe just to start, I think one of the other claims in the short report was -- that got some attention from people that I talked with. Was that something that changed beginning in 2016 with respect to operating income and how the number was calculated? And I recognize that it looked like the short report was only looking at a kind of a small subset of your overall legal entities. But any further color as to anything that might have changed from an accounting standpoint or the calculation of operating income kind of beginning of that 2016 time frame?

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

So again, relating to numbers that were put together in a flawed way, I don't think that's the right exercise. But in general, I would say, that in any even entity, there could be change in profitability over time because of different reasons. Could be the mix of business in entity in that specific point, could be what are the functions that this entity is doing that year relative to the past, could be an acquisition. As I said before, we acquired

Converse, for example, in 2015, when it was bought through the Amdocs Cyprus entity. So from 2016 and forward, we amortize intangibles for that entity. So there are different things that are happening, so any given entity. But to take the numbers that they have tried to do it, I'm saying they because there's no clue who it is. And ignore intercompany elimination, ignore different fiscal years, ignore that it's different GAAP, but at the time, take all these numbers, ignoring all of that and try to match it up and then compare it to the group numbers, it's totally flawed by design. So I think to try to analyze this set of numbers. I'm sorry, I don't feel it's worth your time or mine.

William Verity Power - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Yes. That's fair. I guess the other question, just, Tamar, just coming back to the presentation and you were speaking to the strength of backlog and the visibility that provides, 80% visibility into a given year. Can you just remind us kind of the key revenue components within that visibility? In rough terms, how much of that's managed services versus software, professional services? What are the key elements, I guess, of that 80% visibility into a given year?

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

So what we include in the backlog is the recurring revenue...

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

12 months backlog.

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

The 12 months backlog. Thanks, Shuky. 12 months backlog is the recurring revenue in multiyear engagements with our clients. Typically, those are the managed services agreements could be from time to time also multiyear maintenance agreement. But usually, this is the heavy numbers there are the multiyear managed services engagements in which we are providing IT and automation services to our capital to 1 of the systems for them.

On top of that, we're including into the backlog, recurring revenue of ongoing support that is something that we're doing for many years and we have very high level of visibility. And to remind you, even during some stress periods such as 2008 and '09 financial crisis or pandemic, we have not seen any change now in this kind of activity. So the level of consistency we see this is very high. And for new projects, we only include in the backlog, things that have been signed and secured with the customer. So whenever we include, for example, if you remember, we had in the last 2 quarters, the fiscal first quarter of '21 and the fourth quarter of 2020, we have Very strong sequential increases in the 12-month backlog.

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

Highest ever.

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

The highest ever, yes, the record high of the company. A lot of that has to do with signing new deal activity that happened in the quarter and the recent, in the most recent quarter, for example, the new multiyear strategic engagements with T-Mobile that added to the 12 months backlog. And every quarter, we are publishing this metric in order to give you a better indication of how we are seeing the visibility of the business.

Operator

Our next question comes from Jackson Ader with JPMorgan.

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

Just following up on one thing that Tom asked earlier. Just to clarify, will there be a Board investigation into the accounting practices?

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

As always, in this kind of situation, we are giving full update. First of all, by the way, before the Board, I want to say, on my behalf, obviously, I want to read every kind of report that comes out like that, and double check and triple check, et cetera, et cetera, our accounting practices. A, we believe we have rigorous accounting practices. We are very proud about that. And after reading or seeing that report, I'm telling you there's no merit, it's groundless, et cetera. We are also obviously making sure that we review it with our auditors, so they feel comfortable that there is nothing to it. And then present it to the audit committee and to the Board. Why we believe so? But it's not a so-called investigation. It's just a regular practice, I think, of the best learning practice that we want to have as a company.

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

Okay. All right. Got you. And then on the auditor turnover. I guess, one question that we have and that we feel it is what benefits do you feel like you get from maybe going with a local auditor in a local country, which is essentially like a completely unknown to the investment community, right, like a reputation that's not good or bad. It's just completely unknown relative to what you might get from a big 4 accounting firm in that local country. Just curious why local but unknown might be better sometimes?

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

So first of all, what we want to do is consolidate to fewer audit relationship. It does not make sense, I assume you agree with me to run 27 different auditors engaged just in EMEA as a region alone. So we try to consolidate. Now the rationale behind that, and again, we're talking just about the local statutory financial statements. We are not talking about the audit of the group, which is NY New York. for many years. So when we did on this RSP, the rationale was to keep for the large business entities, the key business entities in which there is no complex activity to keep a big 4 firm. And in many of those entities, we reappointed NY, in some, PWC. So again, depending on the strength of the firm in that country. So that's for the big and key business initiatives.

But then you have different legal entities in which, for example, you have 50 employees, you just pay payroll and all the revenue of that subsidiary is cost-plus to another entity in the group, very simple, relatively. So for that, frankly, the attention given by big 4 firms is not that relevant, and also the price premium that they charge for that. So on that, we went and selected a very reputable firm. It may not be a familiar name to you, but they're top 15 accounting firm in the world. They have over 40,000 employees. They have something like $2 billion of turnover. They are doing these kind of services from many reputable multinationals. Insurance, Wells Fargo, Decathlon, all of those multinational companies have been references of these firms. So they not nobody, just to be clear. And I think they are doing exactly what we need in terms of the level of service we need for those local capital reports of smaller entities within the group.

Again, they were selected, just to be clear in EMEA, they were in EMEA alone. We believe that the selection process has been very professional. We have a very strong RFP going along with many good responses. It's not the report to the investors. I want to be -- I know I'll say it for the third time, but I want to be absolutely clear. The consolidated financial statements of Amdocs Group as filed with the SEC has nothing to do with those local audits, nothing. NY New York are taking full responsibility not dividing this responsibility in any way to those local audits. All these local auditor thing that we're talking about is just for filing local reports required by that country. It does not impact the whole group audit afterwards.

Operator

Thank you. And I'm showing no other questions at this time. I'd like to turn the call back to Matt Smith for any closing remarks.

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

Yes. Thank you very much for joining us at...

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

Matt, Matt, I think it's my turn.

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

Sorry, Shuky.

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

Okay. Thank you all for your questions. And we hope the information we have shared today helps provide a clear picture of certain aspects of our business model and organization. Today, Amdocs is well positioned to continue to benefit from secular trends driving customer demand for digital modernization solutions, the adoption of 5G and the journey to the cloud. We are focused on execution on our strategy, expanding our leading position with our key customers across the world and delivering shareholder value. We thank you all of our stakeholders for their continued confidence in Amdocs and we look forward to providing further updates on our business in early May when we report earnings consistent with our regular practice Thank you, guys.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone have a great day.
