AMDOCS Q1 2021 CONFERENCE CALL SCRIPT
FINAL

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5:00 pm

Matt Smith:

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.

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, joint Chief Financial and Operating Officer.

Finally, a copy of today's prepared remarks will be posted on the Investor Relations section of Amdocs' website following the conclusion of this earnings call.

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

Shuky Sheffer

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

I'd like to preface today's remarks by referring to the previously announced divestiture of OpenMarket, which we successfully completed on December 31st. My comments on this call will therefore refer to certain financial metrics on a pro forma basis where applicable in order to provide you with a sense of the underlying business trends excluding the financial impact of OpenMarket.

I am pleased to report a strong quarter to start our fiscal year 2021. Among the highlights:

- We delivered record-high revenue, which was up 4.3% year-over-year as reported and above the midpoint of guidance even without the benefit of foreign currency movements
- We had our best-ever quarter in North America and Europe
- We maintained a high win rate, including a significant new multi-year strategic partnership agreement with T-Mobile USA, and
- We generated robust normalized free cash flow of $385 million for the quarter

During Q1, we focused on accelerating our growth by monetizing the strategic engines we have built to meet our customers' requirements for digital modernization, 5G, the journey to the cloud and a next-generation OSS platform that accelerates innovative 5G network services in the cloud era.

I am happy to report that we are seeing some encouraging signs of market traction as we execute on our strategy. Our first quarter sales momentum was strong, as reflected by our pro forma 12-month backlog which grew by a record amount of approximately $150 million sequentially and 5.6% year-over-year. The mix of new awards was also well-balanced across our product portfolio and included also several new wins for Openet's 5G charging and policy solutions.

Now, let me provide some color regarding our regional performance during Q1.

Beginning with North America, we delivered a record quarter as we ramped-up customer activities to support their strategic investments in next-generation 5G customer experience solutions, delivered on the cloud. At AT&T for instance, we are accelerating a program to modernize the consumer mobility domain by including the deployment of 5G monetization solutions leveraging Openet's capabilities, as we announced last quarter.

- As I mentioned in my opening remarks, we are today delighted to announce that Amdocs has been selected to modernize and accelerate T-Mobile's digital transformation and journey to the cloud by signing a new multi-year agreement which further strengthens our long-term strategic partnership.

- As part of the engagement, T-Mobile will implement the amdocsONE product portfolio to support next generation communication and media services for its consumer and business customers.

- Additionally, Amdocs will provide:

    - Extended next generation hybrid-cloud operations in the form of a multi-year managed services engagement for T-Mobile's digital platforms, covering automated operations, and
    - Continued support for T-Mobile as it navigates through a complex integration process

- Among some of the other first quarter highlights, Charter selected Amdocs for a multi-year managed services agreement in support of its Spectrum mobile business. Additionally, a Pay TV provider has chosen our cloud-based monetization platform to support enterprise and wholesale services in its next generation 5G network.

To summarize North America, we are pleased with our Q1 sales momentum which we believe reflects the strength of our next generation, 5G customer experience solutions and our ability to accelerate our customer's journey to the cloud.

Moving to Europe, we delivered a second straight quarter of record revenue. During Q1, we continued to win new logos such as WINDTRE, one of the largest mobile operators in Italy, which has chosen to deploy Amdocs Optima on the public cloud to provide a modern 5G-ready monetization platform for its post-paid consumer and enterprise customers across all lines of business.

An emerging theme in the communications industry is the shift from physical to software-based SIM cards. This trend has been accelerated by the global pandemic and is translating to growing demand for the Amdocs cloud-based eSIM platform which has already been adopted by Telefonica in Brazil and Chile, and which was recently chosen by Cellcom Israel to be deployed on Microsoft Azure for its commercial launch of eSIM-enabled devices like smartwatches, cellular phones, laptops, tablets and more.

We are also delighted to be growing our presence in Russia, where projekt202, our digital experience group, has been selected by MTS as a consultancy partner in its plans to take its customer ecosystem and retail experience to the next level, and to help identify new business revenue streams and opportunities

Amdocs' media offerings are also continuing to gain traction. In Eastern Europe, Vubiquity strengthened its footprint at A1 Telekom Austria Group by renewing its multi-year partnership with A1 Hrvatska *[pronounced "Horvatski"]* to provide transaction-based offerings for premium studio content, as well as end-to-end content management which includes marketing, localization and processing services.

Regarding the outlook in Europe, we are focused on our project execution and on winning new business opportunities that will further expand our regional customer footprint for the longer-term.

Turning to the Rest of World, Q1 revenue improved on a sequential basis. Among the highlights of the quarter, we continued to strengthen our relationships with long-standing strategic customers across the region.

- A good example of this is the Telefonica group where we recently expanded our existing multi-year service agreement with Movistar Perú to modernize and accelerate its wireline corporate enterprise transformation. Additionally, we signed a multi-year extension and expansion of our managed services agreement with Telefónica Movistar Chile to include the launch of our cloud-based digital eSIM solution which I mentioned before.

To round out my regional comments, I am pleased with our first quarter performance. Excluding OpenMarket, we are on-track to deliver full year growth on a pro forma basis in each of the three geographic regions in which we operate in fiscal 2021, although we remind you that sequential trends may fluctuate across regions due to foreign currency movements, the size and timing of project activities and other factors.

Our confidence in the outlook is supported by our recent sales momentum and our ability to monetize the strategic engines of growth we have built to support our customer's needs for:

- Digital modernization to enhance customer experience
- 5G
- The journey to the cloud, and
- A next-generation OSS platform that accelerates innovative 5G network services in the cloud era

We see strong interest in Openet's 5G charging and policy solutions, which naturally complements the multi-play capabilities of our charging platform and 5G monetization and order handling offerings. The integration of these technologies has strengthened our market offering and helped us to win new awards with AT&T and several other service providers in the past months.

- These awards include one of America's largest prepaid, no-contract wireless providers which has recently selected Amdocs' Openet 5G Policy Management system running on AWS Cloud to enable management and control of 5G and all other wireless services.

- Over in Europe, we have expanded our partnership with A1 Telecom Austria Group with a multi-year deal to provide digital monetization using Openet 5G charging and policy products and services, and

- At Globe Telecom in the Philippines we have successfully implemented the Amdocs Openet solution on AWS cloud to support GOMO, Globe's fully digital telecom brand.

Overall, we are pleased with Openet's recent progress and its proven ability to support the future charging and policy needs of the world's service providers as they accelerate their 5G investments.

To wrap-up, I am pleased with the strong start we have made to the fiscal year, especially amid the great uncertainty regarding the spread and severity of the COVID-19 pandemic which continues to adversely affect the global economic outlook.

We remain on-track to deliver accelerated growth in fiscal 2021 on a pro forma basis, consistent with our previous guidance, and we continue to expect a stronger second half as we execute on our strategy and ramp-up recent customer awards.

Our confidence in the outlook is supported by the visibility of our backlog, our proven ability to execute, the accountability we provide to our customers and our focused strategy which we believe is aligned with the needs of the market.

With our commitment to profitability and the disciplined use of cash, we remain well placed to deliver total shareholder returns of almost 10% in fiscal 2021, including a slightly improved outlook for pro forma non-GAAP earnings per share growth of 7.5% at the midpoint of our new guidance range, plus our dividend yield.

Finally, I would like to take a moment to thank our employees for supporting our social responsibilities and related activities, including our mission to drive connectivity and digital inclusion in the many communities in which we operate worldwide. Throughout the global pandemic, people's ability to interact, access services, learn and work has been essential. Our focus on enabling digital inclusion runs across our offerings but also extends to our communities: from internet connectivity and accessibility, to digital literacy and advanced skills trainings. For example, we are connecting 4 schools in Kenya to the internet, giving the opportunity to more than 7,000 children to use this window to the world in collaboration with the Safaricom foundation. In addition to donating thousands of computers to under-represented populations, many of our employees are also teaching different populations how to access the internet, providing tailor-made digital skills trainings, and helping future generations to become more employable in the tech sector. We are committed to the journey towards digital inclusion and will continue to serve societies where they need us the most.

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

Tamar Rapaport-Dagim

Thank you, Shuky.

Since we completed the divestiture of OpenMarket on December 31, 2020, our reported numbers for income statement and cash flow in the first quarter fiscal 2021 still include OpenMarket, but the reported balance sheet as of December 31, 2020 and the 12 month backlog metric already exclude OpenMarket. In order to provide you with a sense of the underlying business trends my comments today will refer to certain financial metrics on a pro forma basis, which exclude the financial impact of OpenMarket from the current fiscal year and comparable fiscal year period.

First fiscal quarter revenue of $1,086 million was above the midpoint of our guidance range of $1,055 million to $1,095 million, both on a reported and constant currency basis. Revenue includes a positive impact from foreign currency fluctuations of approximately $5 million relative to the fourth fiscal quarter of 2020 and $6 million relative to guidance.

On a year-over-year basis, our first quarter revenue grew by 4.3% as reported and 3.7% on constant currency.

Our first fiscal quarter non-GAAP operating margin was 17.3%, above the midpoint of our long-term target range of 16.5% to 17.5% and slightly better on a sequential and year ago basis. Non-GAAP operating margin was consistent with our guidance that we will protect profitability despite the COVID-19 related challenges.

Below the operating line, non-GAAP net interest and other expense was $5.3 million in Q1, the mix of which includes interest expense related to our short-term borrowings and 10-year bond, and the impact of foreign currency fluctuations. For forward-looking purposes, we expect 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.

Diluted non-GAAP EPS was $1.16 in Q1, above the high-end our guidance range of $1.09 to $1.15. Our non-GAAP effective tax rate was 16.3% in the first fiscal quarter, consistent with our annual target range of 13% to 17%.

Diluted GAAP EPS was $2.28 for the first fiscal quarter, well above the high-end of our guidance range of $0.85 to $0.93 due to a net gain of $1.42 per diluted share realized on the divestiture of OpenMarket, which was not included in guidance.

Free cash flow was $366 million in Q1. This was comprised of cash flow from operations of approximately $416 million, less $50 million in net capital expenditures and other. Free cash flow reflected a healthy level of cash collections with our customers and included the benefit of the new multi-year strategic agreement we signed with T-Mobile during the first fiscal quarter.

Normalized free cash flow was $385 million in the first fiscal quarter.

Please refer to the reconciliation table provided in our Q1 earnings release for an explanation of the difference between normalized and reported free cash flow in the quarter and for past periods.

DSO of 78 days decreased by 10 days year-over-year and increased by 3 days as compared to the prior fiscal quarter. We remind you that DSO's may fluctuate from quarter to quarter.

As of December 31, total deferred revenue exceeded total unbilled receivables by $140 million. This reflects a substantial increase in total deferred revenue of $224 million as compared to the fourth fiscal quarter of 2020, slightly offset by an increase in total unbilled receivables of $10 million. The increase in total deferred revenue is primarily related to the new T-Mobile agreement, as well as many other new activities signed during Q1. Changes in unbilled receivables and total deferred revenue are primarily due to the timing of contract-specific milestones. Moving forward, you should expect these items to fluctuate from quarter to quarter in line with normal business activities.

Moving on, our 12-month backlog was $3.49 billion at the end of the first fiscal quarter and reflects already the exclusion of OpenMarket following its divestiture as of December 31. On a pro forma basis, excluding the financial impact of OpenMarket, our 12-month backlog had a record increase of approximately $150 million sequentially from the end of the prior quarter and was up roughly 5.6% year-over-year. As a reminder, we believe our 12-month backlog continues to serve as a good leading indicator of our forward-looking revenue.

I am pleased to report another record quarter from managed services arrangements which comprised roughly 57% of total revenue. This performance reflects high renewal rates, the adoption of our managed transformation model and the continued expansion of activities within existing customers. To clarify, OpenMarket business was not classified as Managed Services and therefore its exit will not impact moving forward our revenue from managed services.

Our cash balance at the end of the first fiscal quarter was approximately $1.5 billion, including aggregate borrowings of roughly $750 million and gross proceeds of roughly $300 million realized from the divesture of OpenMarket. Given our plans to use the majority of OpenMarket consideration for accelerated share buy-back in the next several months, we expect our cash balance to be lower at the end of fiscal Q2.

We remain comfortable with our balance sheet and believe that we have ample liquidity to support our ongoing business needs while retaining the capacity to fund strategic growth investments as and when the right opportunities arise. Additionally, we are committed to maintaining our investment grade credit rating.

Now turning to the outlook, the prevailing level of macro-economic and business uncertainty surrounding the magnitude and duration of the COVID-19 pandemic remains elevated. The midpoint of our 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, and we remind you that our outlook may be impacted materially as our customers continue to evaluate their strategic business priorities and future pace of investment.

We expect revenue for the second fiscal quarter of 2021 to be within a range of $1.015 billion to $1.055 billion. Our Q2 revenue guidance anticipates a positive sequential impact of approximately $4 million from foreign currency fluctuations.

Regarding the full fiscal year 2021, we expect pro forma revenue growth of approximately 3.5% to 7.5% year-over-year on a constant currency basis, adjusting for OpenMarket. This outlook is in line with our previous guidance for expected pro forma revenue growth on a constant currency basis.

On a reported basis, we are adjusting our full year fiscal 2021 revenue outlook to reflect the divestiture of OpenMarket as of December 31, meaning that OpenMarket is included in the first fiscal quarter numbers only. We therefore expect reported full year revenue growth in the range of negative (0.3)% to plus 3.7% year-over-year as compared with our previous range of 4.0% to 8.0% year-over-year.

The adjusted revenue outlook on a reported basis anticipates a positive impact from foreign currency fluctuations of approximately 1.2% year-over-year as compared to a positive impact of 0.5% previously.

As a reminder, our initial outlook at the beginning of fiscal 2021 had anticipated revenue growth of 3.5% to 7.5% on a constant currency basis, including a full year contribution from OpenMarket.

Additionally, we expect the ramp-up of customer activity to contribute to an acceleration in the rate of year-over-year revenue growth on a pro forma basis in the fiscal second half. Moreover, we expect all three geographical regions to deliver pro forma revenue growth in the full year fiscal 2021.

As a final point to further help with your modelling, we remind you that we originally planned for OpenMarket fiscal 2021 annual revenues in the range of approximately $300 million which represented more-or-less the same growth rate year-over-year to the rest of the company. OpenMarket generated roughly 75% of its revenues from North America with Europe accounting for the balance.

Regarding profitability, we now anticipate quarterly non-GAAP operating margins to track roughly in line with high-end of the annual target range of 16.5% to 17.5%. This improvement relative to the levels of the past several quarters reflects the benefit of ongoing cost and efficiency improvements and the divestiture of OpenMarket for which operating margins were below the corporate average, tracking in the low double digits. We remain focused on protecting our profitability while maintaining strong execution during the ongoing pandemic and increasing R&D investments to support our customers and future growth strategy.

We expect the second fiscal quarter diluted non-GAAP EPS to be in the range of $1.09 to $1.15.

Our second fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 132 million shares. We excluded the impact of incremental future share buyback activity during the second fiscal quarter, as the level of activity will depend on market conditions.

Regarding the full year fiscal 2021 outlook, we expect non-GAAP diluted earnings per share growth of 5.5% to 9.5% on a pro forma basis, which is slightly better than the original pro forma guidance of 5.0% to 9.0% we provided for the year.

On a reported basis, we expect to deliver full year diluted non-GAAP EPS growth of 4.0% to 8.0% year-over-year. This outlook includes the impact of OpenMarket for the first quarter only and compares with our previous outlook of 5.0% to 9.0% year-over-year which included OpenMarket for the full year fiscal 2021.

We expect our non-GAAP effective tax rate to be within our annual target range of 13% to 17% for the full fiscal year 2021.

I am pleased to report we are raising our outlook for normalized free cash flow for fiscal year 2021 to approximately $800 million, compared to $620 million previously. The new outlook is equivalent to approximately 8% of Amdocs' market capitalization and represents a conversion rate of roughly 130% relative to our expectations for non-GAAP net income. As a reminder, we expect free cash flow to convert at a rate more on par with our expected non-GAAP net income over the long-term.

Along similar lines, we are raising our outlook for reported free cash flow for fiscal year 2021 to approximately $600 million as compared to roughly $470 million previously. Our reported free cash flow outlook anticipates expenditures of roughly $140 million in relation to the development of our new campus in Israel, $40 million of capital gains tax to be paid in relation to the divesture of OpenMarket, and other items. As previously stated, we expect fiscal 2021 to be the peak year of capital expenditure for the new campus. Additionally, the gap between expected free cash flow on a normalized and reported basis has widened, primarily due to tax to be paid on the capital gain of OpenMarket.

Additionally, we remind you that free cash flow in the second fiscal quarter is typically lower due to the timing of annual bonus payments.

During the first fiscal quarter, we repurchased $90 million of our ordinary shares under our current authorization.

Regarding our capital allocations plans for the rest of fiscal 2021, we expect to return cash to shareholders in the form of our regular quarterly dividend and share repurchases at levels roughly similar to that of fiscal Q1, subject to factors such as the status of the COVID-19 pandemic, the outlook for M&A, financial markets and prevailing industry conditions.

In addition to our regular quarterly share repurchases, we also plan to return the majority of the net proceeds from OpenMarket to shareholders by way of our share repurchase program over the course of the next several months.

As of December 31, we had roughly $588 million of authorized capacity for share repurchases with no stated expiration date, which we will execute at the company's discretion going forward.

Overall, we are on-track to deliver accelerated pro forma revenue growth, improved profitability and better than expected free cash flow in fiscal 2021, the combination of which supports an outlook for total shareholders returns of nearly 10%, including the 7.5% midpoint of our pro forma non-GAAP earnings per share growth guidance, plus our dividend yield.

As a final comment, I am proud to say that Amdocs has been recognized once again for its commitment to sustainability and corporate responsibility by earning a place on the prestigious S&P Dow Jones Sustainability Index for North America for the second consecutive year. I would like to join Shuky in acknowledging our employees for their dedication, commitment to best practices and ability to work together with our partners and customers, without which this achievement would not have been possible.

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

Closing Remarks:

Thank you very much for joining our call this evening and for your continued interest in Amdocs. We look forward to hearing from you in the coming days and if you have any additional questions please call the Investor Relations Group. Have a great evening and, with that, we will conclude the call.