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DOX - Q2 2020 Amdocs Ltd Earnings Call

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OVERVIEW:

Co. reported 2Q20 revenues of $1.05 and diluted GAAP EPS of $0.94. Expects FY20 reported revenues to grow in the range of negative 0.5% to plus 2.5%. Expects 3Q20 revenues to be $0.99-1.04b and diluted non-GAAP EPS to be $1.00-1.08.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And I'd like to welcome you all to today's call, the Second Fiscal Quarter 2020 Earnings Conference Call. (Operator Instructions)

I would now like to turn our call over to your speaker today, Mr. Matthew Smith. Please go ahead, sir.

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

Thank you, Ryan. 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 be also 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, 2019, filed on December 16, 2019, and our Form 6-K furnished for the first quarter of fiscal '20 on February 18, 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.

And with that, I'll turn it over to Shuky.

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

Thank you, Matt. Good afternoon, everyone. Thank you for joining us on the call today, and I sincerely hope that you and your loved ones are safe and well at a difficult time in the world. I'm proud of our second fiscal quarter performance, especially considering the global health and economic crisis created by the COVID-19 pandemic.

We delivered a record high revenue that was slightly above the midpoint of our guidance, adjusting for foreign currency headwinds. We maintained stable profitability with solid free cash flow generation, and we ended Q2 with a strong balance sheet and enough liquidity to support our ongoing business needs and long-term investments.

Regarding our response to the COVID-19 pandemic. We demonstrate incredible execution as we adapted our global operations to ensure business continuity and the health and wellbeing of our global workforce, our customer and their respective families.

From our vantage point in Southeast Asia, Amdocs is among the first in our industry to proactively address the business impact in the evolving crisis. We acted decisively to communicate precautionary measures and employee travel restrictions throughout the region and parts of Europe. And in early February, we are one of the first companies to announce our withdrawal for GSMA Mobile World Congress in Barcelona.

By mid-March, almost 100% of our 25,000 employees were equipped to securely work from home and mostly operating the mission-critical system required to keep our customer operations running seamlessly across 85 countries. For the [small] number of essential employees required to be on-premise at customer and end of site, we took a proper step to ensure their safety.

To smoothly position Amdocs global development, project delivery and Managed Services operation with our short-term productivity intact, it is not trivial. We successfully completed an incredible 20 go-lives in March, another 26 in April, using new methodologies, best-in-class practices and various collaboration and deployment tools to meet the required project goals. At the same time, we supported the business continuity for our customer with remote solution to address pain points in billing and collection, contact center and retail store support and radio optimization.

Our support for the community was also another pillar of our response. We donated medical masks, medical supplies, protective equipment, life-saving machine and food for the needy. With the leadership of our CSR team, we also started a [data assisted] call center operated by Amdocs volunteers to assist elderlies and other population, who are socially and digitally disconnected and unable to operate a video call.

Overall, I believe our response to COVID-19 highlights the vital role of Amdocs play in the communication ecosystem and our ability to effectively share, collaborate and communicate internally and with service providers and partners. I would like to take a moment to warmly thank our employees for their professionalism, commitment and ability to quickly adapt to the [new serving] centers.

I would also like to say that I'm proud of the dependability we showed our customer who took the right step to ensure essential services for everyone in this difficult time.

I will talk about COVID-19 in respect to our outlook later in the call. But first, let me provide a review of our second quarter activities on a regional basis.

Beginning with North America, we delivered a record quarter that included: the steady ramp-up of our new Managed Services agreement with AT&T; remote operational management assistant support to assist COVID-19 response at (inaudible). The live deployment of Amdocs data and intelligence systems on Google Cloud and (inaudible) USA and continuous progress in the successful deployment of the new digital customer self-care and [commerce] capabilities at U.S. Cellular and our customer experience portfolio to help monetizing, billing and simplify operation of modules.

Additionally, we are delighted to report a pivotal win at a major new logo, which has selected Amdocs CatalogONE on AWS Cloud to rapidly launch new services across its customer base including 5G wireless, wireline and enterprise. We believe this award reflects the strength of our next generation offering and provides us with an important foothold for which to demonstrate the long-term value proposition Amdocs can bring as an innovative and [transparent] partner.

Our media offering also gained further traction in Q2. We signed a multi-year -- under which Amdocs Media's cloud-based platform will provide a content aggregation, processing compliance and delivery services to support the video platform of a leading Canadian operator. Meanwhile, Amdocs' Media MarketONE

Platform is providing T-Mobile U.S. with easy way to onboard OTT partners, such as innovative new entrant Quibi, making them quickly available to T-Mobile's flagship Magenta and ONE family plan customers.

To comment briefly on T-Mobile and Sprint, we have developed a deep relationship with these service providers over many years, and both are top 10 customers of Amdocs today. Over the last few years, we have supported T-Mobile growth strategies and more recently, the new video strategy and 5G network planning and deployment. While at Sprint, we have delivered digital 1 to modernize and accelerate Sprint's digital transformation.

As T-Mobile merger with Sprint is now complete, we are working hard to demonstrate that we have the right credentials to be the main partner for the new T-Mobile after expected launch later in the summer. Having said that, there is no guarantee of new awards, and we assume that future opportunities may take several quarters to materialize within the current economic environment. Overall, we continue to see many long-term growth opportunities in North America, but we do expect situation tends to weaken in the fiscal second half, given the prevailing level of economic uncertainty.

Moving to Europe. Underlying activity level were healthy, adjusting for foreign currency headwind and normal business fluctuation. I can recall that recent projects like Vodafone Germany, Orange Spain are ramping up as planned, albeit using remote capabilities. We are also helping our European communication media customer adapt their business to the COVID-19 environment.

For instance, we have expanded our Managed Services deal with EE in the U.K. to implement secure remote digital engagement for its customer, alongside partner [Liteco], enabling EE's customers to complete sales cycle from the safety of the comfort of their own home. Additionally, as people stay home during the COVID-19 lockdown and use their broadband and TV services more, we have seen double digit increase in Virgin Media [stores] in [Virgin Movies] activity as supported by Vubiquity.

As a final highlight, we expanded our collaboration with Liberty Global in Q2 to provide seamless access on multiple devices using our unified digital identity solution, which will be delivered on the cloud to serve Liberty's pan-European group of operator's.

Turning to the Rest of the World. We delivered an impressive quarter of execution, adjusting for foreign currency movement in normal business fluctuation. And these 2 activities include a successful go-live of MarketONE on the cloud at AT&T, Mexico as well as several other notable deliverables.

For instance, we deployed our entire customer experience suite on AWS Cloud in a DevOps delivery model as part of a data transformation we are supporting for a leading content and consumer company in Southeast Asia. Despite the considerable limitation posed by the COVID-19 pandemic, we've successfully collaborated with the customer and the Amdocs project team, which involved hundreds of people in several countries to resulting to go-live, it was achieved [on time embedded] with nearly all our employees working secure and effectively from the remoteness of their home.

At Vodafone Idea in India, we led a multi-vendor effort to migrate large section of their subscriber base in record time. Despite of challenges as a global pandemic, while extended shelter, in Indonesia delivered the first set of new capabilities as part of our multiyear managed digital transformation project.

In terms of new wins, Globe in the Philippines selected our leading cloud-native CatalogONE and DigitalONE solution to transforming enterprise operation under a multiyear Managed Services agreement. Additionally, we continue to expand Amdocs Media in Rest of the World. Vubiquity has turned to provide Airtel Africa, with the premium media content and curation across multiple countries on Microsoft Azure. Vubiquity also reached a 3-year agreement with Antel, Uruguay state-owned operator for the provision of content services. This include the licenses processing market and delivery of [stereo titles and S-mode] movies to Antel's more than 1 million household subscribers.

Overall, I am pleased with our performance across all regions in the second quarter and the essential support we provide to the world's largest communication and media companies. However, the continued COVID-19 pandemic has disrupted global economic activity on an unprecedented scale, and there is very little clarity as to when the economy can recover and what we look when it does.

With respect to our outlook for the fiscal year, we are providing our current expectation based on information we have to date, but remind you that we are in time of great uncertainty regarding the spread of severity of the COVID-19 pandemic and its adverse effect on the global economy remains. With these factors in mind, let me take a moment to talk about our current market position, our forward strategy and financial expectation for the full fiscal year.

First, we believe Amdocs is the right solution ready to support our customer long-term investment in digital modernization, 5G network deployment [motivation], system integration to the cloud and launching media entertainment offering. At the same time, we plan to tailor and accelerate certain R&D investments in order to bring the innovation our customers will need to succeed in the post COVID-19 environment.

Second, while there have been no project cancellation due to the COVID-19 pandemic, there was some slippage in the deep pipeline during March as our customers prioritized their own business continuity plans. I'm [scared] to report that some of these deals have already closed in Q3, while other are progressing through the diligence process. Nevertheless, the slower-than-expected base of pipeline conversion is impacting our revenue growth outlook for the full fiscal year 2020.

Third, we moved quickly to align our cost structure to the reality of the current business environment, and we're expected to maintain operating margin in the fiscal second half at similar level to the last couple of quarters.

Fourth, we remain committed to a proactive and disciplined allocation of capital. We are on track to meet our normalized free cash flow target for the full fiscal year, and we have enough liquidity to support our ongoing business needs and long-term organic growth investment. Additionally, we continue to see M&A as strategic vehicle for our long-term growth, possibly using debt where appropriate.

To wrap up, we expect to generate positive revenue and early growth at the midpoint for -- of the -- our full year guidance, even though the COVID-19 pandemic is negatively impacting our fiscal second half. The visibility for our 12 months backlog lends support to our outlook, and we believe we have the right mix of product offerings and employee talent to ensure we emerge from this crisis stronger than before, in a position to generate future growth.

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

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

Thank you, Shuky. Second fiscal quarter revenue of $1.5 billion was slightly above the midpoint of our expectation of $1.35 billion and $1.75 billion, excluding for negative foreign currency impact of approximately $8 million relative to guidance range.

On a reported basis, revenue performance included a negative impact from foreign currency fluctuations of approximately $6 million relative to the first fiscal quarter of 2020. Due to our strong win momentum entering the quarter and the disciplined execution we have delivered to our customers, we are pleased to have met all revenue expectations while adjusting our global operations in response to COVID-19 outbreak.

On a year-over-year basis, our second quarter revenue grew by 2.8% as reported and 3.7% in constant currency. Our second fiscal quarter non-GAAP operating margin was 17.2%, above the midpoint of our long-term target range of 16.5% to 17.5% and consistent with our guidance.

Below the operating line, non-GAAP net interest and other expense was $2.3 million in Q2. Foreign currency fluctuations in the quarter were higher than normal, and our hedging program was effective in mitigating for most of the impact on the bottom line. For forward-looking purposes, we continue to expect non-GAAP net interest and other expense in the range of a few million dollars quarterly due to foreign currency fluctuations.

We remind you that our foreign currency hedging program is designed to protect our profitability and free cash flow generation rather than revenue, and we are pleased that this approach has proven effective through the volatile currency markets of the second quarter.

Due to GAAP, EPS was $1.08 in Q2, above the midpoint of our guidance range of $1.03 to $1.09. As anticipated, our non-GAAP effective tax rate of 18.3% in the second fiscal quarter was above the high end of our annual target range of 13% to 17%. Diluted GAAP EPS was $0.94 for the second fiscal quarter, above our guidance range of $0.82 to $0.90. Free cash flow was $57 million in Q2. This was comprised of cash flow from operations of approximately $103 million, less $46 million in net capital expenditures and other and includes an annual cash bonus payment in January for the prior fiscal year 2019, consistent with our guidance expectations of last quarter.

Normalized free cash flow was $36 million in the second fiscal quarter, which is on track with our original expectation for roughly 1/3 of the annual cash flow in the first half of the fiscal year. Please refer to the reconciliation table provided in our Q2 earnings release for an explanation of the difference between normalized and reported free cash flow in the quarter and for past periods.

DSO of 82 days decreased by 4 days year-over-year and by 6 days as compared to the prior fiscal quarter. We remind you that DSO may fluctuate from quarter-to-quarter. The sequential gap between unbilled receivables and deferred revenue narrowed by $18 million as compared to the first fiscal quarter of 2020, reflecting a decrease in total unbilled receivable of $30 million, and an increase in total deferred revenue, both short and long term, of $5 million.

Relative to a year ago, the gap increased by $36 million. Changes in this gap are primarily due to the timing of contract-specific milestones relating to the transformation projects we are delivering for our customers. Moving forward, you should expect unbilled receivables and total deferred revenue to fluctuate from quarter-to-quarter, in line with normal business activities.

Moving on, our 12-month backlog was $3.46 billion at the end of the second fiscal quarter and relatively flat compared to the prior quarter on a constant currency basis. 12-month backlog was down $60 million sequentially as reported, but up 2.1% compared to a year ago. As a reminder, we believe our 12 months backlog continues to serve as a good leading indicator of our forward-looking revenue.

I am pleased to report that revenue from Managed Services arrangements that generate typically high level of recurring revenue streams had a record quarter in Q2, comprising 58% of total revenue. That reflects high renewal rates, the growing adoption of our Managed Transformation model and the continued expansion of activities within existing Managed Services customers.

Our cash balance at the end of second fiscal quarter was approximately $763 million. Given the uncertain magnitude of duration of the COVID-19 economic crisis, we took the precaution to increase our cash balance by drawing down $350 million in Q2, including $300 million under our $500 million revolving credit facility and a $500,000 bank loan.

For the fiscal third quarter-to-date, we have taken an additional $100 million in short-term bank loans, bringing total short-term borrowings to $450 million. We remain comfortable with our balance sheet and believe we have ample net cash and liquidity to support our ongoing business needs, organic growth investments and cash returns to shareholders, including our quarterly dividend program. Additionally, we are committed to maintaining our investment-grade credit rating.

During the second fiscal quarter, we repurchased $120 million of our ordinary shares under our current authorization, more than half of which was executed during the extreme share market volatility of March. As of March 31, we had more than $800 million of authorized capacity for share repurchases with no stated expiration date, which we will be executed at the company's discretion going forward.

Now turning to the outlook. We are taking a wider than normal range with respect to our revenue guidance for the third fiscal quarter of fiscal 2020 and the full fiscal year of 2020, which we believe is appropriate given the prevailing level of macroeconomic and business uncertainty surrounding the magnitude and duration of the COVID-19 pandemic.

The midpoint of our revenue guidance for Q3 and the full fiscal year range reflects what we consider to be the most likely outcomes based on our information, the information we have as of 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.

With that said, we expect revenue for the third fiscal quarter of 2020 to be within a range of $990 million to $1.04 billion. Embedded with our Q3 revenue guidance, we anticipate a sequential negative impact from foreign currency fluctuations of approximately $8 million as compared to fiscal second quarter. Regarding the full fiscal year 2020, we expect to deliver total revenue growth in the range of roughly 0.5 percentage point to 3.5 percentage points year-over-year on a constant currency basis, the midpoint of which is approximately 200 basis points lower than that of our previous expectation of 2.5% to 5.5% year-over-year. On a reported basis, we now expect full year revenue growth in the range of negative 0.5% and to plus 2.5% as compared with a range of plus 2.5% to 5.5% previously.

The new outlook anticipates a negative impact from foreign currency fluctuations of approximately 1% year-over-year as compared to an immaterial amount expected previously.

We anticipate our non-GAAP operating margin will remain at or above the midpoint of our unchanged annual target range of 16.5% to 17.5% in the fiscal second half and similar to the levels of the last couple of quarters. While we are faced with revenue headwinds resulting from the COVID-19 pandemic, we are focused on protecting our profitability while balancing between our short-term customer commitments, operational excellence and our employee well-being. At the same time, we are investing in our business to ensure we emerge from this crisis with even stronger customer relationship, high levels of employee engagement and a superior offering that is relevant to the needs of the market.

We expect our non-GAAP effective tax rate to remain within the same target range of 13% to 17% for the full fiscal year 2020. We expect the third fiscal quarter diluted non-GAAP EPS to be in the range of $1 to $1.08. With respect to Q3, we expect our non-GAAP effective tax rate to be at the higher end of our annual target range of 13% to 17%.

Our third fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 134 million shares. We excluded the impact of incremental future share buyback activities during the third fiscal quarter as the level of activity will depend on market conditions. For the full fiscal year, we now expect to deliver diluted non-GAAP EPS growth of 0% to 4% year-over-year as compared to a prior expectation of 3% to 7%. Additionally, our full year EPS outlook incorporates our expected repurchase activity over the year.

We continue to expect normalized free cash flow for the year 2020 of approximately $500 million. We continue to expect reported free cash flow for the fiscal year 2020 to be approximately $400 million, which includes anticipated capital expenditure up to $90 million in relation to the development of our new campus in Israel and other items.

Regarding our capital allocation plans, we remain committed to the quarterly dividend as an important part of the total return we expect to provide to our shareholders. And together with our share repurchase activity, we expect to return a majority of our normalized free cash flow in fiscal 2020. With that said, we will continue to assess the deployment of capital carefully in the fiscal second half having regard to the status of COVID-19 pandemic, the outlook for M&A, financial markets and prevailing industry conditions.

To conclude my financial comments, we expect to deliver modest top line growth as well as a total shareholder return of approximately 4% for the full fiscal year 2020, which includes the 2% midpoint of our expected non-GAAP earnings per share and a 2% dividend yield, and that's despite the toughest of economic times.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll start with our first question from the line of Ashwin Shirvaikar from Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Former Director*

Good to hear your voices, hope you're well. I guess I wanted to start by asking how your clients are adapting to the -- this new environment. It seems as though new signings are coming back, so maybe the sales process is working. But could you talk about ramps of existing deals? Can you talk about your current conversations? Or I would think digital transformation is now more important than ever before, any other points to consider? Are they pushing out payments? Are there any differences versus telecom versus media, things like that?

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

So I think from a sales perspective, we see 2 types of activities. There was the activity that we engaged prior to the COVID-19. And as I mentioned, there was a big slowdown during the March time frame, and we expect and want to see recovery in Q3. We see some signing of some of this deal at the beginning of Q3. We hope to be able to continue this momentum.

From an offering perspective, we see, again, 2 types of offering, A, we continue -- all the offering at the end of this -- [commissioning] of 5G monetization, as you mentioned, digital transformation, et cetera; but we also coming with a new idea and innovation to support what we believe is a reflection of the COVID-19 pain points. Obviously, we are trying to find solution for the fact, there's a little (inaudible) and the written store we close. So how we can elevate the self-care and the e-commerce activities, obviously, closing the call center or moving to call center to work-from-home. This is another thing that we are coming with innovative solution to support our customer that have to move 10 thousands and thousands of customer service representatives to work from home.

How to monetize the network and how to optimize the network in time like this. So another area, we are coming -- start innovation solution to support our customers. For Q2, I cannot tell you that we have seen pressure regarding collection. Actually, we had a good, very decent collection quarter. I cannot tell you that this will be always the case. But so far, I think the value of the services, the importance of the services, the mission-critical services we deliver, I think that, as I mentioned, we've done an exceptional good job in this quarter and also in April. So, so far, we did not see this pressure.

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

Ashwin, one point maybe to add is on the media side. We're very pleased with the continued wins momentum all over the world, and you've seen some of the examples we shared during the prepared remarks, with many new logos, a lot of service providers around the world launching OTT services. We're seeing the demand for the content management and processing that we provide as well as things like seamless identity management and onboarding of new consumers. MarketONE has been a very successful platform, both with T-Mobile that's launched already new partners as well as AT&T Mexico, so we're very pleased with the momentum over there.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Former Director*

Got it. And then the second question really is about cost flexibility as you think about the current environment. And that's, both a question about the ability to cut costs, control costs as well as the willingness, given that you have fairly large number of transformational deals going on and so on and so forth. Can you talk about your cost flexibility?

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

Sure. So what we are seeing is that, obviously, we need to plan for multiple scenarios given the uncertainty. So what we're trying to do is to build cost contingency initiatives that are trying to factor in different things that can happen both in terms of ramp-up, ramp-down. As you know, we have quite a robust delivery model that is a global one. And as a matter of regular business, we need all the time to be able to reallocate resources between activities that are accelerating in certain customers versus others that are naturally ramping down, so it's a muscle in the company in a way that is very active. And even more so, of course, in times like that, we are continuing to be very cautious on talent acquisition these days, while we [aren't] hiring many employees, and by the way, virtually onboarding hundreds of employees in different places in the world. We are very selective in where we decide to recruit.

At the same time, we continue to balance the different activities that we do with all kinds of initiatives that are least harmful to the employees and the productivity and the commitments we can do for our customers.

And by doing that, so far, we've managed to do a good job in protecting the margin, plus we have things in our contingency plans to address any further pressure if one will come. So that's why we came out with the message, we believe that in the second half of the year, while we're experiencing some pressure on the top line, we can protect the margin level we've seen in the last couple of quarters.

Operator

(Operator Instructions) Our next question comes from the line of Jackson Ader from JPMorgan.

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

Collection just seems strong in the quarter, and that runs counter to, I think, what we would have expected. And so just curious about the collections activity in the quarter. And then also, have you had any customers maybe that you'd hit invoicing milestones on their projects, and they've asked for either deferrals or leniency in payment terms?

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

So I think Jackson, it's a good point because naturally, collecting money is never an easy thing. Everybody wants the cash in their banking account, and definitely in times like that. But at the same time, we've been very focused on making sure that, A, we invoice for all the milestones that we've hit and we collect the money that is well-deserved after we meet those milestones. And it's an ongoing discussion with customers. So yes, naturally, there are difficulties that come with the situation. By the way, some of them even logistical difficulties like how do people access the bank accounts in countries in which they pay by checks. I know it's hard to believe that in some countries, this is still the case, but it is. So all the way from these kind of, I will call it, more logistical challenges that we have to overcome to customers dialogue around can we move the payment, et cetera. So it's an ongoing discussion we have with customers. I think that we are managing that in an effective way. Our customers understand how well we are executing to the commitments we have. And the other way around, we expect to be paid on time.

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

Okay. And then actually, that's a nice segue into my follow-up, which was, could we just -- is there any more color maybe that you could provide on when you were talking about the just logistical hang ups of getting paid, what about the logistical hang ups that go with some of your transformation or project-oriented milestones? Are there things that -- are there milestones that Amdocs cannot typically hit during this time period that would preclude you from being able to recognize revenue from a certain project because of COVID-19?

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

The answer is a straight no. I think that we proved during February and March, and in April, that we are able to deliver all milestones. This is what I said in the script that we are very proud in how effectively we move to work completely virtual, leveraging the best-in-class methodologies, collaboration tools. We are working in Vodafone Germany on continuation, which I think one of the biggest transformation in the world, everything in a virtual way from probably 3 to 4 countries. The same in Orange Spain and same in others, so I think that we were able to adopt very, very fast to deploy all this production milestone.

As I mentioned, in Southeast Asia, we moved one of the operator in 2 weekends to the -- the whole system to the cloud. Everything was supported remotely from our workforce in India, in Israel, United States, in the Philippines, et cetera. So I can tell you with a great confidence that we have done exceptionally well to this environment, and I don't see any reasons, as we will continue to deploy. I think between March and June together, we deployed 15 milestone to production. So it's a major...

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

March and April.

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

Sorry?

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

March and April.

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

March and April, sorry. So the answer is that I don't see any reasons we [won't] continue to deliver.

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

I think just to add on that, it requires, obviously, a lot of joint effort with our customers and a lot of open dialogue about how to make it happen, which obviously is the case in terms of the joint interest of both parties and just an incredible commitment of our workforce. Our employees have been wonderful in coping with the all move in a very fast pace to this working from home mode and very small quantity of employees that are essential to be on customer or our own sites, like data center support, things like that, have been also very flexible in agreeing to do the task. And obviously, we made all of that while making sure they are very safe in controlled clean environments.

Operator

(Operator Instructions) Our next question comes from the line of Hugh Cunningham from OPCO -- OpCo.

Hugh Devon Cunningham - *Oppenheimer & Co. Inc., Research Division - Associate*

Regarding the new campus in Israel, has the COVID-19 lockdown impacted the progress of work there? And looking forward, do you expect any impact on the work on the new campus?

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

I can start and Tamar will complete. I can tell you that the whole arrangements we have in the campus is we have a lot of flexibility. We made sure that we have flexibility with all the contractors. We are evaluating what we call the next-generation of way of working. It's going to be -- continue to be balanced between working from the office. There are certain things that the only way to doing in the highest productivity is from the office.

And definitely, we see that -- more and more colleagues work from home. So this is, I think, we have flexibility. Additionally, in the campus, we moved from pretty much from lease-to-own and definitely, when you own the campus, you have much more flexibility to balance the workforce working for the companies as much as you need, rather than when you sign a long-term leasing deal with a landlord that usually typically don't have so much [flexibility]. So I believe we've built the right flexibility to adjust to the needs that we needs that we need. Tamar, do you want to add?

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

We're continuing on time. Actually, the construction sector in Israel has been excluded as an essential sector. So we're continuous while there were limitations on other activities in country, the construction continued as planned.

Hugh Devon Cunningham - *Oppenheimer & Co. Inc., Research Division - Associate*

Okay. And so the cash flow you've laid out, reemphasized, there's no expectation and that's going to change?

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

Yes. Again, we're saying up to 90% because obviously, we want to take a cautious view on the number we're giving you. And if we can delay some of these payments, that will be good. I think you'd agree with me. So I think that overall, in terms of the expectation, it will definitely not be more than the 90% that we expect for the year. Maybe some of it will shift a bit to next year.

Operator

(Operator Instructions) We do have a question that came in from the line of Charlie Erlikh from Baird.

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

This is Charlie Erlikh for Will Power. Wondering if I can ask a question on the balance sheet. Amdocs has always had a really strong balance sheet. So I'm wondering what the uses and maybe the reason and timing around the $350 million you guys raised this quarter? And then also wanted to clarify that I heard correctly that you raised another $100 million in Q3?

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

So you're right, we have a strong balance sheet, and we are definitely laying down and giving you full transparency about how we are planning to use the money. What we said is the majority of the free cash flow we will generate -- the normal free cash flow will be returned to shareholders. So as you can understand, on top of that, we are funding the buildup of the campus that we just touched, and again, that was planned. So the main reason we draw the money was just to be cautious. Given these kind of circumstances and economic pressure coming with the COVID-19 pandemic, we know liquidity is a scarce asset. We prefer this liquidity will be in our bank account rather than on the other side. So that's the main reason. We're not trying to [signal] here any kind of a mega move that was not planned before, just to be on the safe side.

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

Great. Yes, that makes sense. And then I might have missed it because...

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

And on the $100 million that to be -- sorry, I didn't respond to the other part of your question. Yes, we did do additional $100 million during the beginning of Q3 on top of the $350 million. So in total, we have already borrowing, as of now, $450 million.

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

Great. And then just my last question on AT&T. I'm sorry if I missed this, but did you guys call anything out in the beginning of the call on AT&T specifically, if there's any changes to their discretionary spending patterns or trends or any conversations you're having with them, either positive or negative given the environment?

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

The comment that I had regarding AT&T that we are happy with the execution of the large Managed Service agreement that we've signed with them in the last year, in Q4 last year. So the execution of this contract started already and is going well. Additionally, we are talking with them on different ideas and innovation that can be relevant for COVID-19 situation and more.

Operator

This is a follow-up from the line of Jackson Ader from JPMorgan.

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

Sorry, just one quick follow-up on gross margin. I know, Tamar, you said you expect operating margin to be roughly in line with the first half. What should we be expecting with gross margin? If you could give us additional color there.

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

Jackson, usually, we are not guiding, or to be honest, managing our activities to the gross margin level because we do want to keep the flexibility between primarily in our execution of delivery. Sometimes, we would like to accelerate R&D. For example, now one of the ideas that we have looking at different opportunities in the market is to see where we can slightly accelerate R&D activity. So the shift between margin -- the gross margin level and operating margin is something that we may see. It's not in a material way, but that's why we're very focused on managing and guiding also on the operating margin level.

Operator

And at this time, there are no further questions on the line. I would now turn it back over to our speaker, Matt?

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

Thanks, Ryan, and thanks very much, everyone, for joining our call this evening and for your interest in Amdocs. We do look forward to hearing from you in the coming days. If you do have any additional questions, just give us a call at the Investor Relations group. And with that, stay fit and wealthy, fat and healthy, and have a great evening. Thanks.

Operator

And this does conclude today's call. You may all now disconnect.
