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EDITED TRANSCRIPT

DOX.OQ - Amdocs Ltd at Morgan Stanley Technology, Media and Telecom Conference (Virtual)

EVENT DATE/TIME: MARCH 04, 2021 / 1:45PM GMT

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PRESENTATION

Dafna Kantor Sigal - *Morgan Stanley - Head of Israel*

Hi, everyone. I'm Dafna Kantor, and I'm hosting today Tamar Rapaport-Dagim, Chief Operation Officer and Chief Financial Officer of Amdocs Limited. Tamar has been a Senior Vice President and Chief Financial Officer of Amdocs since 2007. She was appointed Chief Operating Officer in 2018.

Let me start with reading the necessary disclaimer, which goes: for important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley representative.

Now we can commence. Tamar. Many thanks for taking the time to join us today.

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

Hi, Dafna, and good morning, everyone.

Dafna Kantor Sigal - *Morgan Stanley - Head of Israel*

Hi. So first of all, congratulations on announcing a very strong quarter and on raising your guidance for fiscal year '21. We will discuss today the underlying trend behind it. But I suggest that we begin with taking a step back and perhaps introducing a little bit about Amdocs on a high level. You can talk a little bit about the company, the business model, core products and so forth, that would be very helpful.

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

Sure. Thank you. So for those of you who are not familiar with Amdocs, to try and give you the kind of the high-level picture who we are, we've been now in tech for many decades. But if you think about what we are actually enabling is the ability of communication and media industries to perform their key business processes and serve billions of consumers around the world and leading enterprises and small-medium businesses around the world.

And the way we do it is both through the technology and software products that we enable into the market around key business processes such as order to activation of a service, all the way to monetization. The enablement of the virtual management of networks around the ecosystem that the service providers have, enabling, managing different kind of services and onboarding of third parties, et cetera, et cetera. Our products are best-in-class considered leading in the market by all key industry rating metrics. Best-in-class in terms of technology, cloud-native, micro services based, modular and fully integrated into the stack.

So it gives a lot of flexibility to our customers when they want to use our software products. And we come with a very unique accountability model, where we also take the responsibility to deploy our software products in the customer environment. So taking the full responsibility until the software is actually going live and fully operative as well as if the customer desires us to do so, we run and operate the system for the customers on an ongoing basis. In fact, 60% of our revenue is generated by this engagement we call managed services, where we operate the systems on behalf of our customers.

Our customers are communication and media companies around the world, names you are highly familiar with. So in the U.S. market, for example, T-Mobile, AT&T, Verizon, Comcast, Charter; in Canada, Bell Canada, TELUS, Rogers; in Europe, Vodafone and Orange and many others; in the East, SingTel, Axiata Group, et cetera; and of course, Latin America, América Móvil, Telecom Italia, Telefónica. So it's really kind of the big names you've all been using for yourselves and your enterprises in terms of consumer communication.

We've been traded as a public company for over 20 years now, generating revenue of around \$4 billion-plus and generating from that very consistent performance on the operating margin level of roughly 17-plus percent and translating that to earning per share growth consistently of, I would say, 6% to 8% a year, plus a dividend yield of 2%, which brings you to kind of the total shareholders' return of 10%.

Very strong balance sheet. We raised \$650 million of public debt in 2020. Recently, we've been announcing our focus on our new strategic pillars as well as continued ones being in total, mainly 3 pillars. One is the 5G. The second one is the journey of the industry to the cloud. And the third one that is more of a continued strategy is the digital transformation of the industry. We'll be happy to talk more about that, but I'll stop here and let you ask the rest of the questions.

QUESTIONS AND ANSWERS

Dafna Kantor Sigal - *Morgan Stanley - Head of Israel*

Great. That was very helpful. And perhaps another introductory comment from you on the sizing of the market that you operate, so kind of business support systems and customer experience solutions, kind of how do you size -- what is the sizing that you see in front of you?

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

Yes. So the addressable markets we are serving are sized at tens of billions of dollars. And again, depending on which industry analyst, what's the exact number. But I would say roughly, let's say, \$50 billion. Of that, we also see a phenomena that is happening over the years, where more and more of the internal spend in the domains that we serve are moving from internal in-house investments to the outside vendors, which we enjoy as well, both in terms of the sale of our software stack and deploying services around that as well as the model of managed services that is typically replacing internal activities that were done previously by our customers. So while we are serving an end market that its top line is growing at the low single digit, actually, the domains that we are serving and looking for always are the ones that are in the investment cycle in demand, so we, as the market leader, can generate faster revenue growth. In fact, our revenue guidance is in the mid- to high single-digit in terms of growth, targeting over 5% on constant currency, I should say.

And the way we've been doing that is by taking all the time and approach of understanding what is the next, obviously, investment cycle and how we are positioning ourselves to be continuously leading in reaping those benefits of those investment cycles by our customers. And taking, of course, a high share in win rate in order to make sure that we stay ahead of the curve.

Dafna Kantor Sigal - *Morgan Stanley - Head of Israel*

Okay. Great. And let's, indeed, double-click on a few of the recent trends. So if we talk specifically about 5G, how do you aim to participate in the new modernization and the kind of opportunities around 5Gs for the telcos?

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

So from our point of view, just to be clear, we are not providing the network tangible assets. We are not a network equipment provider. We are providing a lot of the platform capabilities for the service providers to actually deploy the networks in the right way. That's a small part of our benefit from the 5G cycle that's planning and design of 5G networks.

And then primarily our opportunity is around helping the service providers make money from this investment in the networks. In very simple terms, it's around everything that has to do from connecting the network and the events in the network all the way to business offering that they can launch into the market. Again, whether those service and business offerings are targeted at consumers or enterprises, and we can enable through our platforms and capabilities the service providers to have the right engines for any kind of service model they would like to launch. So in a way, we are providing them the capabilities to be as flexible as possible, as robust as possible, so they can launch to market different ways of monetizing their capabilities from the 5G networks. And we are definitely seeing that investment cycle happening. We are ahead of the curve in terms of serving a lot of the leading market. The participants in the 5G, for example, we have a couple of very nice wins in South Korea, everybody knows South Korea is the first market globally to launch commercially 5G with Korea Telecom, a recent win with LG U+. In the U.S. market, we are seeing much more activities. Recent announcement we've had were with leading carriers in the market, AT&T, who selected us for the 5G activities of building their capabilities. We can talk about, obviously, T-Mobile, a recent very important win that included also capabilities around 5G, but many more things. And we are continuing to see a very healthy pipeline.

We recently completed an acquisition of a company called Openet that is leading globally from a product and technology around charging and policy, which is one of the elements within the stack that carriers will have to put in as a new one in order to gain those capabilities. So with the completion of Openet and the bigger software stack that Amdocs has, we believe we are positioned best-in-class in terms of serving the needs of the service providers around 5G.

Dafna Kantor Sigal - Morgan Stanley - Head of Israel

Great. And let's talk also about cloud at that level before we double-click on specific clients. Let's talk a little bit about cloud and how you help facilitate the migration to the cloud of your customers?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

So when we think about the Journey to the Cloud of the world in general, obviously, that is happening for several years, nothing new there. What we're seeing is that naturally, the shift of applications to the cloud started with the simpler applications, e-mail, then came ERP and all kinds of applications. And now we're getting into the era where more and more of the more complex mission-critical applications and ecosystems of the environments are moving to the cloud, which is exactly the sweet spot where we can come in and lead the way with our customer base in their Journey to the Cloud. And different statistics are talking about the fact that the majority of the activities of the service providers are still in on-prem mode and moving to the cloud. So the journey is ahead of us, to a large extent, when we're talking about that product.

And we are positioned very well in that context to be the one enabling them to move through this journey. First of all, our software products are cloud-native for several years, everything new coming out of our R&D shop is definitely cloud-native and cloud ready. But the more important thing is that there is a lot of existing applications in the communication and media. And not everybody will just rip out the old applications and put in new ones that are already cloud-native. You need to think of how to do this journey in a smart way.

Many of our customers also want flexibility. They want to have a hybrid cloud situation. They don't want to be locked into one name necessarily. They also want flexibility to decide what they are keeping on-prem and what they are moving to the cloud, on the public cloud. Maybe they want some things on the private cloud that they're building. So to have that kind of flexibility, you need to be able to build a lot of tools and a lot of know-how that we have, and we can be the ones leading the way in taking every customer, tailoring a very specific Journey to the Cloud with that customer and enabling them to go through that journey.

And we're seeing very nice examples and in many of the dialogues we are doing with customers around the world. This value proposition that we are coming with is accepted very well and as proven by POs, which is obviously the best way to see the acceptance of that.

Dafna Kantor Sigal - Morgan Stanley - Head of Israel

Okay. Great. And indeed, let's talk about the growth backlog and perhaps now talk about, kind of double-click on the T-Mobile announcement you made in the last quarter and the multiyear deal that was recently signed. So perhaps you can kind of give a little bit of context as to the specific contract, what it includes and the impact on the backlog?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

Sure. We've been very excited with the T-Mobile award and been privileged to work with both side of the merger: T-Mobile as a stand-alone company; and Sprint as a stand-alone company for many years. But naturally, in the 2 years that they were waiting for the merger approval, they were trying to move ahead with some investments in order to be very relevant, et cetera. But you are in some uncertainty mode while you're waiting for a merger. So in that area, we've done a lot of activities on both sides, of what I would say, no regret moves in terms of investments and getting them ready. And obviously, as the opportunity and probability of the merger moving through came to fruition, we've been working with T-Mobile on the day 1 merger activities of the launch that happened last summer of the new T-Mobile.

At the same time, T-Mobile were looking to decide what is going to be their next-gen stack on which they are going to run not only in the next couple of quarters, but for the next decade, and hopefully more. And we've been working very closely with the T-Mobile team to make sure that they see the value proposition of Amdocs, and I'm glad to say they definitely saw it. They realized that Amdocs should be the partner for their next-gen stack for everything that has to do with the business support systems and the different activities around running their business.

We signed with T-Mobile a very strategic deal that includes both modernizing their stack, and that's the future stack on which eventually all the subscribers will be on-boarded. We are going to run that afterwards and doing the buildup of the new stack in a managed services mode, meaning we are running under managed services that are existing applications, building into their ecosystem the new platform of Amdocs. And once this goes live, we are continuing to run it with cloud operations and everything that has to do with running this new ecosystem on behalf of T-Mobile.

While this agreement is highly strategic and already sizable by itself, this does not complete the opportunity of winning business in T-Mobile. We are definitely positioned now in a very strong way as their partner. And we see more opportunities to come in terms of different buying centers and addressable areas in our domain that we can still grow in T-Mobile.

So from our point of view, we are seeing this as definitely as 1 plus 1 equals more than more than 2. Very happy to be their partner, good visibility with this new agreement and already in action in terms of building the new stack and new capabilities for them to benefit this.

Just want to add that when you look at the activity of the business in general, beyond T-Mobile, we've been seeing a very nice momentum in terms of sales. As indicated by our 12-months backlog, we've been seeing for the last 2 quarters sequential increases in our backlog of \$140 million in the fourth quarter of fiscal year 2020, \$150 million sequential increase, which represent, just to give you to some kind of a relative sizing, typical quarter for us was [2030]. So having 2 such quarters of sales that represented a good increase in the 12-months backlog is definitely a good leading indicator for why we are so bullish about the opportunity to accelerate growth, not only in 2021 as the year is already showing more than double of the growth rate we've seen in the prior year, but also within 2021, we expect acceleration. So the second half of the year is expected to be much stronger than the first half. And some of this is already built into the backlog. Some of this, we already obviously still have to sign deals. So we are not resting in any way. But you have this kind of activity already secure to the backlog is obviously encouraging.

And that has to do with activities around many parts of the world. We talked about the cloud, the 5G, digital transformation, we are seeing good momentum globally. We are expecting growth, in fact, in all 3 key regions that we report on North America, Europe and Rest of the World, and all 3 of them are expected to grow in fiscal '21.

Dafna Kantor Sigal - Morgan Stanley - Head of Israel

Great. And perhaps you could also comment on growth beyond 2021. How do you think about the longer-term growth in terms of new customer wins, logos and growth within customers? Perhaps you could comment on the kind of longer-term horizon here.

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

So I think what's great is that those key 3 growth drivers, the digital transformation, the cloud, the 5G are multiyear cycles. I mean, some just started, in our opinion, some -- the digital transformation is going on for some years. But obviously, we all see with COVID how it's accelerating. We all feel it in our daily lives. And the cloud and the 5G are still earlier in their cycle. So those are multiyear growth opportunities from our point of view, which we believe will continue to enjoy into 2022 and years beyond that.

We are also continuing to see expansion into new logos, and this is extremely important. We are talking about 2 industries, both communications and media, concentrated industries in terms of the number of customers that comprise most of the industry. And within that, therefore, it's extremely important to win new logos. And what we do and we focus on is that when we win a new logo, it's not a onetime thing. It's not just a onetime deal and then off we go. It's about creating a base now for expansion of business and bringing more of the value proposition that we have.

And the fact we can do it in a modular way is very important. So if a customer would like to buy from Amdocs, the Catalog, which is one product across many, many, many products we have, an important one, but within a portfolio that is much richer, they know they can start with the Catalog, for example, like the case was with Korea Telecom, and then expand from there to many other things that we are coming with as the new capabilities.

We can start with selling software stack and deployment services and just later sell the managed services. A recent example of that was Charter. So we sold Charter our capabilities and the stack and deploying it for the spectrum mobile brand and about 2 quarters afterwards, they selected us to perform also managed services for them, which is the ongoing operations of that stack.

So our ability to expand both by bringing new logos on board and expanding within existing customers is extremely important. And of course, we are moving ahead and doing it more and more with also penetrating new countries.

We always joked that only several years ago, we realized that Italy is a great country. Of course, we all love Italy. But only several years ago, Amdocs managed to penetrate it, and we did focus on penetrating the Italian market. And since then, we won all leading carriers in Italy. So now we are serving Telecom Italia and Vodafone Italy and Sky Italy and the recent win is with Wind Tre. So this is another example of how we can expand.

Now the idea, of course, is that with these new projects within the Italian new customers, we will start a relationship that will last for, hopefully, decades and sell into these customers more of capabilities.

Dafna Kantor Sigal - *Morgan Stanley - Head of Israel*

Great. So perhaps we'll touch on to 2 other elements of your results, which were positively impacted. One is the cash flow, where you upgraded your guidance to \$800 million from \$620 million. So kind of can you talk about the key drivers for this robust cash flow conversion, and specifically, in such a challenging macro environment? So if you can talk about that.

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

So kind of the big picture of our business model is that we are generating high level of recurring revenue. Roughly speaking, between, I don't know, 70% to 80% of our revenue is recurring. Yes, we invest heavily into R&D to continue to make sure that we are a market leader, but we know how to do that while generating healthy operating margins, expanding -- slowly but surely, expanding operating margins over the year and translating that, importantly to your question, to cash flow from the business. So over the years, we're generating cash flow, which is roughly on par with the earnings.

Some years will be years in which we need to invest a bit more in setup of entering a new country. Signing a large deal, that requires some setup costs, et cetera. In some years like this one, we are going to see 130% roughly of earnings to cash conversion. So unfortunately, we haven't found the trick how to stay on 130% earnings to cash conversion every year. But obviously, we're very happy with the fact that we started this year with

roughly \$600 million, already raised the guidance for free cash flow on a normalized basis to \$800 million. We've seen a very strong collection quarter in our first fiscal quarter and continuing to expect good momentum there.

Now there is no magic, I have to say. It's not that collecting money is easy ever. And definitely, during this period, do you know what? Cash is king. But at the same time, we are providing strong value to our customers. We are serving them in the best way we can, and we expect them to pay. And this is a very simple equation we are trying to maintain. So I always say that the ability to hit milestone has to do with strong execution capabilities. And we do obviously push for this strong execution. It's our claim to fame. Even before thinking about collecting the cash around those milestones, it's about the delivering on our promises to customers.

But then once we do hit those milestones and invoice the customers, there is a great focus on collection and the credit worthiness level and collectability level that we have is very strong.

Dafna Kantor Sigal - *Morgan Stanley - Head of Israel*

Perhaps we should talk a little bit about your capital allocation plan that what you've announced there in terms of the profits from OpenMarket? And in general, what are your plans for capital allocation going forward?

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

So we've done -- recently, as part of this strategic focus, we've also decided what we are not going to focus on, which is OpenMarket. OpenMarket was a business of SMS messaging. We decided it's noncore and sold it and the closing happened at the end of December. And on top of the regular consistent buyback that we do, which is roughly \$90 million, \$100 million a quarter, we said we will take the vast majority of the net consideration from OpenMarket and put it on top as an accelerated buyback in the next few months.

We do have a dividend. It's the smaller part of the cash returned to shareholders. It's generating roughly 2% yield. We are increasing it every year. The recent increase, even though it happened during COVID, it was still double digit. And we've been increasing it double digit every year since we launched it, I think, like 6, 7 years ago.

And we are also using capital for M&A. So we are not doing any crazy moves, but we are consistently buying companies. Now consistently is a bit of a tricky word because in M&A, you can not necessarily buy in a regular pace every quarter, but consistently, meaning as the mindset. When we do our strategy process, we are looking always to see what makes sense to fulfill organically by creating, building ourselves, sometimes partnering and what makes sense to do through an M&A. And over the years, we are buying. Usually, it's a small to medium-sized companies as more of an add-on of technology of products or as a beachhead going into a new domain.

For example, a couple of years ago, we bought a company called Vubiquity as our entry pointing into the media customer base in market. The recent example of the acquisition that we've done, Openet is more of a product and technology for 5G charging. So while we have sold OpenMarket, we are also buying, but we are very disciplined buyers. So some quarters will go by without necessarily having an M&A deal on statement, but the pipeline is always active. And we are continuously looking naturally in the areas that are the growth drivers for the company.

Before you ask the question, what about consolidations, because sometimes we are being asked about that, okay, you're a market leader, are you consolidating competitors, we usually like to win over competition. But from time to time, there are opportunities that are interesting, but it needs to be really attractive financially in order to do a certain consolidation. And it's -- I would say it's not necessarily a first priority, but we've had also good experience with that.

In 2015, for example, we acquired a competitor called Comverse. Very happy with that acquisition. It was very complementary in terms of the customer base. We've seen a lot of good momentum around that. Selling, again, a lot of the value proposition that we have as Amdocs into this customer base that we took over through the Comverse acquisition. So that was a great example. So never say never, but not necessarily first priority.

Dafna Kantor Sigal - Morgan Stanley - Head of Israel

Let's talk a little bit about COVID time, managing a company, being a CEO of a company during COVID time, the challenges that you faced and what you would be taking with you also for the time after COVID, managing such a global company with such a global base as well?

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

It's interesting because a couple of days from now, it's the annual anniversary of our decision to send all employees globally to work from home at that point, March 2020, which was a very scary decision. We got lucky in a way because it happened several months after we decided without obviously knowing about COVID coming, that we're going to move the company to work 1 day a week from home as a flexibility move, as being more accommodating to the well-being of our employees.

So a lot of the infrastructure activities we've done back then helped us accelerate as soon as we realized that COVID is coming up. And to be honest, yes, we had great business continuity plans in place, but never in our scenario analysis we talked about a global pandemic hitting everything and everywhere at the same time. But it did provide us good foundation to move fast and act fast and be ready. So I'm very proud to say that with the amazing commitment of our employees, we didn't miss a beat on execution.

We continue to deploy dozens of projects every quarter during the COVID, continued to support under managed services, the production environment of our customers, those, again, mission-critical systems, so they are kind of the oxygen line of our customers. And that -- including the recent holiday season in the large majority of the world in the last December. So we continue to work well.

The challenges is, obviously, in some places, how do we now leverage on the opportunity that we start seeing some capability to move back to more of a normal mode where we can start coming back to the office. So again, without getting into too many details, obviously, that's changing from region to region and the maturity of the region in terms of the ability to go work back from the facilities, and we are very focused on obviously doing that. We're balancing the health and safety of our employees. But I think what is going to remain, and that's very important, a lot of the acceleration we've done on digital tools, implementation collaboratively from remote sites, how do we deploy a large-scale production of an IT system, where historically, we used to send people to the site and work with the customers? Okay, now we can analyze and learn a lot on what functions really need to be at the site with the customer when you go into production, but what can be done remotely. So we need to obviously -- and can leverage this opportunity of many things we learned and that's true globally. But also within Amdocs, I believe, we learned a lot to a lot of things that can stay with us in terms of how to do things differently.

At the same time, some things will go back. I don't think we will -- in normal post-COVID world, I don't think we should never fly to see customers, okay? It's obviously something that we want to continue to do. There's something else about the nature of the interaction, the intimacy that you can have while talking to customers face-to-face and also from working together with employees. There is a lot of benefits of doing things virtually, more flexibility for people, of course. But at the same time, the partnership, the innovation, the ability to be creative and create that kind of ecosystem does have an impact to working together physically from the same location. So we are looking what's the right and fine-tuning this hybrid model. But definitely going back to a hybrid model where people will work again also from the offices.

Dafna Kantor Sigal - Morgan Stanley - Head of Israel

Yes. Really enjoyed our conversation. We're already 2 minutes over time. So we'll have to -- I mean -- I do hope that next time, I meet you in person at our physical conference. It was wonderful to see you today. And then thank you so much for the time and for the insights.

Tamar Rapaport-Dagim - Amdocs Limited - CFO & COO

Thank you, Dafna, and thank you, everyone. Stay safe. Bye-bye.

Dafna Kantor Sigal - Morgan Stanley - Head of Israel

Bye-bye.

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