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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Shuky Sheffer *Amdocs Ltd - President, Chief Executive Officer, Director*

CONFERENCE CALL PARTICIPANTS

Matthew Cost *Morgan Stanley - Analyst*

PRESENTATION

Matthew Cost - *Morgan Stanley - Analyst*

Hello, everybody. Thank you for being here. My name is Matt Cost from the Morgan Stanley US Internet team, pinch-hitting for Meta Marshall here today and very excited to be joined by Shuky Sheffer, CEO of Amdocs. Thank you so much for being here.

Shuky Sheffer - *Amdocs Ltd - President, Chief Executive Officer, Director*

Sure.

QUESTIONS AND ANSWERS

Matthew Cost - *Morgan Stanley - Analyst*

So maybe let's jump right into it and let's do a little bit of an intro for investors who maybe are not as close to the Amdocs story. Talk about your company, the competitive positioning and maybe touch on your key growth drivers and how those are evolving because of AI.

Shuky Sheffer - *Amdocs Ltd - President, Chief Executive Officer, Director*

Okay. So to those of you who doesn't know Amdocs, I'll try to be humble. It will be very difficult for you to travel in the world today and to open a phone and it will not be Amdocs behind it. If you think about -- we are -- our industry is the service providers, the largest telcos in the world: Vodafone, 3, AT&T, T-Mobile. And what we do for them is that if you think about all the engagement that you have with these companies, from the website, the mobile application catalog, all the monetization platform, ordering platforms, all the billing, general ledger, invoicing, AR, provisioning, fulfillment, service assurance, so from the channels to the provisioning on the service to the network.

It doesn't mean it could be any -- if you buy a new mobile phone, if you do a new mobile package, if you want to add Amazon to your service, if you want to buy broadband, everything Amdocs is doing end-to-end. So this is why I said, if you open and hear a phone in the UK, so between Vodafone, 3, and BT, everything, everywhere, everyone is running Amdocs platform. If you go to the US, AT&T, T-Mobile, I mean, everyone is running our platform. And Amdocs is very unique because usually, companies are spread between product companies, like Salesforce, and system integrators, like Accenture. And what we do is what we call product-led services.

We are serving the telco industry or the service provider industry. And we do both the product, and we do all the services around the product. So it's about implementing the product, operating the product, managed services around the product, which creates a very unique accountability model. You're talking about a very, very complex mission-critical system that needs to operate all the time with like carrying great type of resilience. And the accountability model in Amdocs, usually Amdocs compete because Amdocs is the only one that has the full portfolio.

And we do all the services around our product, so the competition will be Amdocs with all the services, full accountability model versus some type of system integrator with some companies that will try to stitch everything together. And usually, the accountability model because Amdocs do everything come to Amdocs. Usually, the other model, if something goes wrong, the product company will say the product doesn't work, the

system integrator will say this, the -- sorry, the product company will say the system integrator doesn't know to implement the product and the product company will do the opposite, so it's very unique. We are running a mission-critical system for our customers. I'm -- many years from the company, I don't recall -- maybe in 30 years, only one case, the very small operator replaced Amdocs.

We are, by far, the market leader in our domain, starting from the West, North America, Canada, I mean, everyone is using our platform: AT&T, T-Mobile, Bell Canada, TELUS, Rogers. We are working with the two largest groups in Latin America, which is Telefonica and America Movil in Brazil, Argentina and all the rest. Very strong in Europe. Vodafone is our biggest customer in Europe in many operations, including Germany and Italy and other places and other companies. And we are by far the number one provider in our domain in APAC.

We are not -- we don't have any business in China, a very limited business in Africa. Very complex to work in Africa. And if you talk about our growth drivers right now, definitely the number one is that now we are in the process of transitioning all our customers to the cloud. So cloud-related revenue reached already 25% of the company revenue, growing double digit every year. All the move -- monetization around 5G, generative AI capabilities, network automation, fiber rollout, everything that our customers are doing today, I think probably the cloud one is the one which is -- as I said, is double digit and already reached 25% of the company revenue.

So as I said, everything, we talk about IT systems, in our customer, if you want to simplify, there is all the network domain, building the network, running the network, operating the network and then is all the IT operation that actually delivers everything for our customer. This is Amdocs. Now this is a very highly mission-critical system. If you can think, we -- usually the most operational-wise, the most complex months for us is starting from Black Friday, this is the high, obviously, the operation. By the way, interestingly enough, in North America, which is a big iOS market, I think Apple have like 80% market share.

It used to be that their largest retail day was Black Friday. Now it's the iPhone launch. The iPhone launch became the largest retailer. And obviously, we need to make sure that all our operation is ready to do it.

Matthew Cost - *Morgan Stanley - Analyst*

Great. I mean, so there are a couple of themes that you touched on there, but maybe we can quantify them because I think there was a comment that you made about expanding your TAM from \$30 billion to \$60 billion. So I guess how are you successful in expanding the scope of your business in that way? And then how are you adapting your product and your software stack to go after that bigger opportunity?

Shuky Sheffer - *Amdocs Ltd - President, Chief Executive Officer, Director*

So maybe a bit about the competitive environment, if you look about roughly \$50 billion or -- between \$50 billion to \$60 billion in total addressable market, our main competitor was internal IT, still half of the spend is internal IT. When usually -- when we win, we either replace a competitor or displace a competitor or we take business or the customer decides to take business, which was run by internal IT to give it to Amdocs. So this is -- so it's not Salesforce, it's not ServiceNow, the biggest competitor is the internal IT. The way we build it over the years is that we expanded the portfolio of our product and services. Many years ago, the company was doing mainly billing amortization platform, then we expanded to CRM.

We expanded to the network domain. Now we're expanding to the activities of generative AI. We expanded a lot in managed services. We do a lot of -- most of our large customers are running managed services. It means that we do all the operation end to end from the customer.

Now I want to explain because sometimes there is some misunderstanding. We don't do BPO work. I mean, this is not our business. We do only software, operation and services. So when we talk about managed services, it's not business operation, it's running the platform itself.

Customer can use it by other supplier, but it's running the operation of the system, not -- we don't do BPO. So over time, we expanded the portfolio of our offering, and this is actually which grew our TAM over the years.

Matthew Cost - *Morgan Stanley - Analyst*

Got it. I mean, let's talk about and double-click into that AI stack and GenAI opportunity you were talking about in your first answer. I mean what is the specific opportunity for Amdocs there? And what are some examples of where you've deployed that to customers? And then, what's the feedback there?

Shuky Sheffer - *Amdocs Ltd - President, Chief Executive Officer, Director*

Okay. So when you talk about generative AI, there is what we do internally. We talk about this, how it impacts our software development life cycle, how it impacts our operation and how we can generate a lot of efficiencies using the technology, but let's start what is the value that we can deliver to our customers. So we -- basically, we are operating in three areas in generative AI. And every Amdocs product have a Copilot. Like I think a good example is one of our lead, I would say, flagship product is our product catalog.

Every offering in a company is being designed through the product catalog, and it's very fancy, drag and drop. Every marketer can sit down and plug and create a new. So we created the Copilot that now if you want to create a new offering, rather than starting from scratch, putting out different components to the offering, you can say, I want to -- write in English, I want to create a new offering for London area for millennials, under the age 25, students that are likely to upgrade their phone. And rather than starting to build it, it will create for you a couple -- two, three options to start. It's not 100%, but it's 80% there.

So this is improving the -- this is one example. Doing B2B orders is very complex. I'm sure in the UK, and also in the United States, it's even more complex. You want to do like a nationwide connectivity, it's 50 states, but no one has a service over 50 states. So if you have AT&T and you have to do this, you need to buy service from Comcast, from Verizon, so it's a very complex order.

So rather than building this offering from scratch, this Copilot will create an offering for you to cover it, probably 70%, 80% of it. So this is in our products. I mean, many people are doing it. The second thing, like anyone, we create Agents or Copilots in the -- one example is in the call center. In the call center, there are two main activities.

There is care and commerce. The most popular question to the call center by far is why my bill this month is higher than last month. This is the most common and the most complex answer to -- question to answer, because it can come for many reasons. It can come from you run it up for promotion, your kids were buying stuff you didn't know about. There are many reasons.

So initially, our customer, what they've done is say we can do it ourselves. We can take two PDFs. We'll take the December bill and January bill. We send them to open AI and everything will be fine. This is extremely expensive because OpenAI charging by character, latency was terrible, and it was like 50% accuracy.

What we've done is the fact that we know what is the -- we know the telco environment. So we know it could be like maybe 20 reasons it can happen. You rental for promotion, your kids did some upgrades, many, many reasons. So we built an engine, it's called Amdocs amAlz. It's our platform from generate AI.

It actually brings all the relevant data only. By the way, on the process, we're using several open source LLMs. And eventually, when we send it to OpenAI, it's -- and we announce this -- by the way, our largest partner in this domain is NVIDIA, what we've -- we get to like 98% accuracy with a fraction of the cost with zero latency. So this is one example of what we do in generative AI.

And then, actually, we take it to another agent that actually takes the care call and change it to a commerce call because when you -- the customer callings by the way, there is a plan which must suit you much better and it's better for you to -- in the same time. So this is another domain. And I think the largest domain, and people are not talking about it, because it's more sexy to talk about, Agents and the Copilots. In order to have a good generative AI results or capabilities, it's mainly data.

So all the planning that you need to do under the hood to get the right data in the right time and to store the data in a way that you can leverage these engines is basically -- and this is what we do also, this is another area that we are working at, which actually could be the largest part of all because this is a huge data play in order to get most of the advantage of generative AI capabilities.

Matthew Cost - *Morgan Stanley - Analyst*

Okay. I will in a few minutes here go to the audience, but one or two more before we do that. I think you talked on the most recent call about the decision to exit \$600 million of business. So I guess -- I think you noted some improvement to margins and visibility. Talk us through how that's going to play out and kind of how you arrived at that decision.

Shuky Sheffer - *Amdocs Ltd - President, Chief Executive Officer, Director*

So our strategy is not just what you do, it's what you don't do. I mean, every couple to three years, we -- sometimes we buy companies, and as part of this M&A, we get a business with this company, which is not strategic. Sometimes we decide that we don't see any value for this. So -- but the process was we looked around and we found out that we have some nonstrategic, very, very low-margin business, low visibility, low stickiness. And the reason I mentioned it is not strategic because sometimes we do have business in -- that is highly strategic and low margin.

And over time, we get to a better margin, but it was very important, it was nonstrategic. We've done this process, and we were able to phase out -- it took us three, four months to assess it and to decide what we do. And it's a business we can phase out relatively fast. And obviously, as part of it, we've done the assessment, what will be customer impact, because at the end of the day we're telling customer we are not doing -- I will give an example. We bought a company in 2018 that is doing in the media domain, company called Vubiquity.

And as part of this business, obviously, now Warner Media and Disney and Amazon Prime and Apple TV, our customer, we helped them to -- in content creation. But as part of this business, we got also a licensing business. I don't know when was the last time that you bought video on-demand. I mean, my kids don't even know what it means, video on-demand. So we got this business.

Now it is like almost 0 margin business, so there was no point. So we are going to customer and tell them guys, we are not going to deliver the service anymore. They -- we knew that phasing out the \$600 million business, we will have to sweat a little bit. But I think this has become a better company after it. Because if you look at the -- and this is going back to the fundamental of the Amdocs business, which is highly mission-critical system.

Even in the most complex stress test that you can remember in COVID or in 2008 financial crisis, no one can stop the Amdocs activity. I mean, this is like if you stop it like you stop the organization. So when we've done this process, we make sure that the outcome of it is it's company that have roughly 90% visibility to our 12-month backlog. And if you look at our managed services revenue, which is the most recurring revenue that it used to be roughly 58%, it jumped to roughly 65%.

Talking about margin, we improved the margin by 300 basis points. We go to a record high for the company of the midpoint that we guided for next year is 21.4 or something like this midpoint. From the 300 basis points, about roughly -- it's not exact math, 230 came from the phaseout of this low-margin business and about 60, 70 came from the continuous improvement that we do in our operation. So we think about now the company have 90% visibility for the 12 months, very high managed services revenue of 65% and a very significantly improved margin. I want to talk about the efficiencies in -- because that we mentioned about generative AI.

So generative AI we talked about the offering part of us to our customers. But generative AI is changing Amdocs. The whole software development life cycle is going to be improved and enhanced significantly by using this technology. We are using it in our operation, our managed services operation. And remember, we have like economy of scale, every improvement that we do, we can deploy immediately.

Now we have roughly 50-minute services agreement with the largest companies in the world. We can enjoy this, and it can contribute to our margin because our agreements with our customer, I like, for example, the Accenture of the world, which is mainly rate card based. You buy 100 people

in this rate card. And definitely, if you can show that you can do it in 90 or whatever, it's -- there is a reduction of revenue. Our agreements are outcome-based.

We are committed to service level. It's not -- we are not committing to a number of people that are doing a certain activity. So if you are running a certain large activity in the customer domain, we are committed to time to market, billing accuracy, how many releases. So this is the type of envelope parameter that we are committing to. It's not that we are committing to deliver this work with 100 people.

So we are much more protected from this perspective. Also, we're giving some of this to our customer, but I think that we are much more protected. So this was the rationale of this. And as I said, we had to sweat a little bit to explain, but I think that this was the right thing for the company to do.

Matthew Cost - *Morgan Stanley - Analyst*

Great. Do we have anything in the audience? Feel free to raise a hand. I'll repeat the question to the mic if there's anything. Okay.

If anything, I'll maybe give it one more shot before we wrap up. But maybe let's talk about the demand environment. I think customers have been more selective in pacing their investments and decision-making probably has maybe slowed down over the last year. How do you see that demand environment changing in the next year? And is it just a function of macro overhang lifting?

Shuky Sheffer - *Amdocs Ltd - President, Chief Executive Officer, Director*

Yes. The demand environment is relatively similar in '25 comparing to '24. We don't see any erosion, but rather we don't see like any significant improvement. The demand environment impact on us is that I think we have a very strong win rate. So demand environment means that sometimes, it takes more time to close a deal.

So in our preparation, we thought we are going to close this deal and record revenue in Q2 and suddenly it becomes Q3. So it's mainly this type of.

Customers have more scrutiny when they want to spend their budget. But if you talk about the -- I think that the investment thesis of Amdocs, so what we -- I think we can see that -- obviously, like everyone else, we enjoyed a very strong high pickup in post-COVID. In three years, we grow the company by 25% or a little bit more. So now when we are hovering around -- so we were high single digit, now we are hovering around a 3% revenue growth. And we always said in Amdocs that we cannot create the waves, but we can ride the waves better than anyone else.

So in order for us to go back to mid-single digit, and we'll need some help from the macro environment. But in the meantime, there are different things that can help us to accelerate the growth, and they are not necessarily back to our numbers. Consolidation is something which is good for Amdocs. Amdocs is the number one consolidator in the world. So if you talk about consolidation of a T-Mobile, for example, acquiring UScellular.

So in the short term, it's present for us a headwind. In the long term, it's a significant tailwind. There are many -- a lot of consolidation in Europe. So the whole consolidation is Amdocs is the number one consolidator. I think this is represented -- we see in Europe more and more.

We see in the UK, here obviously, Vodafone and 3. So this is helping us, and we see this trend happening. So the more it will happen, I think it's played to our favor. Eventually, the industry will have and will monetize 5G. So far, there is no real 5G monetization.

You guys that are living in London, you can see that the level of service is not that great. And there is no quality of service. I mean, in one part of the city, you can get this speed and latency. Think about when our customer will deploy 5G stand-alone, and you can get the same speed guarantee, the same speed and latency everyone in the city because you can have like network slicing and other capabilities that in 5G that were not deployed. So 5G monetization definitely can help us when it started to kick off.

Because of the situation, our customers slowed down a little bit, and now, they are starting to increase again there. So these type of things. Definitely, generative AI at some point will contribute more on the revenue. Now by far, our fastest growth engine is the cloud. And -- but we believe at some point generative AI will start to contribute.

So there -- and at the end of the day, because of the fact that the internal IT, which is still half of the spend of our total addressable market, is our largest competitor, we can grow our wallet share in a customer environment even if the -- let's say, even if the IT budget is going down. Because we can do probably with all -- we love our customer, but we're saying this is what we do. So we can do pretty much everything cheaper and better. So we can have a situation that you can see that the IT budgets may be flat, but we can grow our wallet share within the same customer and actually grow the revenue of this customer even though the IT budget is even going down. So overall, I think if you look about -- again, so a very solid and very resilient business model, 90% visibility, margin of -- we guided for a midpoint of 921.3.

Roughly 65% of our business is recurring managed services. And I think that -- and we are by far the market leader, and it's a mission-critical system. It's not something that -- so all in all, we are guiding for a double-digit total share return between the 8.5%, midpoint of our EPS growth, and roughly dividend of \$2.5, so it's roughly 11%. And this is the fifth year in a row that we are actually increasing our -- I would say, the total share return by more than 10%. And I think that the stock is a bit under pressure right now.

I think it's right -- also the industry, I think it's a good time to buy.

Matthew Cost - *Morgan Stanley - Analyst*

All right. Maybe that's a great point to close. Shuky, thanks so much for being here. Thank you all.

Shuky Sheffer - *Amdocs Ltd - President, Chief Executive Officer, Director*

Thank you.

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