AMDOCS Q2 2024 CONFERENCE CALL SCRIPT - FINAL

May 8, 2024

5:00 pm

Matthew Smith, Head of Investor Relations

Slide 2: Disclaimer

Thank you, operator. Before we begin, I need to call your attention to our disclaimer statement on slide 2 of the presentation. It notes that some of our comments today may be forward-looking statements and are subject to risks and uncertainties, including as described in Amdocs' SEC filings, and that we will discuss certain financial information that is not prepared in accordance with GAAP. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release, which will also be furnished with the SEC on Form 6-K.

Slide 3: Today's Speakers

Participating on the call with me today are Shuky Sheffer, President and Chief Executive Officer of Amdocs Management Limited and Tamar Rapaport-Dagim, Chief Financial and Operating Officer.

Slide 4: Earnings Call Agenda

To support today's earnings call we are providing a presentation which can be found on the Investor Relations section of our website, and, as always, a copy of today's prepared remarks will also be posted immediately following the conclusion of this call.

On today's agenda, Shuky will recap our business and financial achievements for the second quarter fiscal 2024 and will update you on the continued progress we have made executing against our strategic growth framework, including Generative AI and our continued sales momentum in cloud.

Shuky will finish by discussing our financial outlook for the full fiscal year 2024, after which Tamar will provide additional details on our second quarter financial performance, our forward guidance, and our continued commitment to ESG.

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

Slide 5: Shuky Sheffer, Chief Executive Officer

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

Slide 6: Thanks to our amazing people around the world, we support our customers' journeys

Let me begin by thanking our amazing employees around the world, who everyday work with our customers to deliver:

- Successful project execution and deployment
- Seamless mission critical IT operations support, and
- Cutting-edge innovation built on Amdocs' unique blend of telco-industry expertise, Generative AI leadership and cloud-native agility.

Slide 7: Q2F24: Record Revenue, Continued Profitable Growth & Margin Improvement

The collective efforts of Amdocs' talented people are reflected in our solid financial results for the second fiscal quarter, the key highlights of which are shown on slide 7.

- Within an environment of persistent macro uncertainty and industry pressure, we achieved record revenue of $1.25 billion, up 2.0% from a year ago in constant currency and slightly better than the midpoint of guidance
- Non-GAAP operating margin improved by 60 basis points year-over-year and 30 basis points sequentially, driven by our ongoing initiatives to accelerate profitability
- Non-GAAP earnings per share was $1.56, consistent with the midpoint of our expectations, and
- We closed Q2 with record 12-month backlog of $4.23 billion, up approximately 3% from a year ago.

Slide 8: Second Quarter Key Highlights

I believe our record 12-month backlog reflects Amdocs' market leadership and healthy sales momentum as we are repeatedly chosen as the technology partner best equipped to support our customer's next-gen, multi-year modernization investments. Slide 8 highlights some of our key achievements in Q2.

In North America:

- During Q2, we continued to expand our product and service offering at AT&T. In addition, I am very happy to report that we just signed a significant 5-year deal at AT&T, which expands our activities in a new cloud domain, as well as extends our engagement with AT&T in the consumer domain through 2029.

- At T-Mobile, we secured additional awards to support its ongoing modernization, and strategy to provide market-leading consumer and B2B customer experiences.

- Charter signed a five-year continuous modernization agreement to leverage Amdocs Customer Experience Suite to unlock business enhancements and new revenue opportunities, and

- Comcast Business continued to modernize and expand adoption of Amdocs' B2B platform across their product offering.

Additionally, we expanded our international footprint, winning a new digital transformation project with J:COM in Japan, and important connectivity and network automation-related deals at Colt in the UK, and a major service provider in Southeast Asia.

Amdocs' subscription and content management offerings also gained further worldwide traction in Q2:

  - Amdocs Subscription Marketplace was selected by Virgin Media O2 in the UK and various affiliates of CK Hutchison group. The platform was also recently deployed at Foxtel in Australia.

  - MTV Japan, a leading Japanese content service owned by Paramount, selected Amdocs' Vubiquity to deliver future ready entertainment experiences to customers by managing the end-to-end content lifecycle, from programming to broadcast, and

  - Starhub, Singapore's leading telecommunication and digital TV service provider, conducted a migration of their TV services for set top boxes, SmartTVs, Mobile, and Web, utilizing Vubiquity's solutions for their entire subscriber base.

Regarding project execution, Q2 was another quarter of successful milestone deployments which included a major upgrade for Verizon to the latest version of CatalogONE.

- We also completed a unified single BSS and OSS platform for a leading service provider in Ireland, which ensures the retirement of several IT legacy systems while delivering on the promise of a seamless customer experience across both the BSS and OSS suites, and

- We enabled the postpaid migration of approximately 55 million subscribers for True Corporation in Thailand.

- Achievements such as these reinforce Amdocs' unmatched reputation for consistent delivery and provide the foundation on which to further extend our market leadership by winning future project awards and by growing our managed services business with new logos and existing customers alike.
    - For instance, we recently expanded our multi-year agreement with a major Southeast Asian service provider to include full cloud managed services and operations, and
    - We signed expanded long-term managed services agreements to support the strategic objectives of Rogers in Canada, which recently merged with Shaw, and Colt in the UK following its acquisition of Lumen's EMEA business last year.

Overall, I believe our Q2 performance demonstrates Amdocs' strong market position, and the technological leadership we are bringing in strategic domains like Gen AI which we are incorporating into our platforms. This was evident at Mobile World Congress in Barcelona this February, where I was extremely encouraged by the high-level of customer engagement and positive strategic feedback we received during the hundreds of C-level and senior management meetings my team and I hosted during the week-long show.

Slide 9: Strategic Growth Framework

Now, moving to slide 9, I'd like to review our growth strategy which is designed to power service providers' delivery of seamless next-generation services by:

- Accelerating the journey to the cloud, across all major cloud providers
- Creating seamless digital experiences by transforming customer journeys for consumer and B2B
- Monetizing the future market potential of 5G standalone networks, fixed wireless access, and fiber with innovative services, and
- Delivering dynamic connected experiences by stream-lining and automating complex network ecosystems

Slide 10: Progress in Strategic Domains (1/5): Gen-AI

Let me begin though on slide 10 with Generative AI, which for the past 12 months has been a top strategic priority for Amdocs:

- During Q2, we continued to execute against the three pillars of our Gen AI strategy, the first of which was to equip Amdocs' flagship CES24 suite with CES

Copilot, a set of embedded GenAI assistants, powered by amAIz. This suite is soon to be deployed in production at several customers.

- Second, we are focused on accelerating the introduction of new Gen AI use cases through our amAIz app factory, the prioritization of which is based on the highest value opportunities:
    - For example, working with several leading service providers, we are piloting billing care and conversational selling capabilities. Early results indicate promising improvements in both the customer and agent experiences, driving meaningful reductions in time to address customer issues, and improving NPS.
- In the third pillar, we are pleased to see the fruits of our work with NVIDIA, and to expand our collaboration with industry leaders including Microsoft and AWS:
    - With NVIDIA, we unveiled meaningful progress towards carrier-scale production imperatives, including reducing token consumption by as much as 60%, reducing query latency by as much as 80%, and improving response accuracy by up to 30%.
    - And with AWS, we have partnered to integrate AWS' Gen AI tools into our amAIz platform, to fuel innovation across telco domains from network operations to customer experience.
    - Lastly, we continue to work with Microsoft and OpenAI across our portfolio
- To summarize, we believe Amdocs has a leading role to play as a <u>dominant</u> industry technology enabler, capable of helping service providers to fully harness the power of Gen AI and deliver real world value and savings.

<u>Slide 11: Progress in Strategic Domains (2/5): Cloud</u>

Moving on to slide 11, strong sales momentum continues in cloud, which is on-track for double-digit revenue growth this year as we advance our customer' cloud strategies with our unique end-to-end products and services, and fully accountable migration model.

- A great example is AT&T Mexico, which has successfully transitioned its Amdocs Customer Experience Suite systems to Oracle Cloud Infrastructure (OCI), thereby enabling flexibility and capacity growth, reduced operational costs, and state-of-the art cloud infrastructure that will allow it to provide superior services, security, and customer experience.
- Amdocs is also collaborating with Australia's Optus to modernize the Amdocs Customer Experience Suite, marking a significant step in Optus' modernization journey.

- As mentioned, we also just signed a significant 5-year deal to expand our cloud activities in AT&T to a new domain. In this program, we will leverage the technology capabilities of Astadia, which we acquired last November. As a reminder, Astadia's technology supports highly sophisticated cloud migrations.

Slide 12: Progress in Strategic Domains (3/5): Digital Modernization

Moving to digital modernization on slide 12, Amdocs has been chosen as a key partner to modernize and accelerate the digital transformation of J:COM, a leading provider of communications and broadcasting services in the competitive Japanese market, to drive operational efficiencies, elevate customer experiences, and unlock new monetization opportunities.

I can also report positive demand for connectX, Amdocs' SaaS cloud-native platform that is powered by Generative AI. This enables MVNO's or any company to seamlessly launch a digital connectivity brand on the cloud. Adding to existing customers like Finetwork in Spain and Melon in South Africa, ConnectX was recently selected by Winity in Brazil to provide the necessary BSS capabilities for a newly established MVNE, providing digital services to its multiple MVNOs

Similarly, we see growing customer appetite for Amdocs Subscription Marketplace, a SaaS-based, scalable platform that seamlessly enables service providers to deliver OTT and digital consumer services straight to their customers.

- Recently, CK Hutchison selected Amdocs Subscription Marketplace to enable various group operating companies in Europe to launch additional entertainment and other digital services together with its core offerings, providing an extremely aggregated and convenient experience for its customers as a one-stop shop for digital subscriptions.
- Subscription Market Place was also selected by Virgin Media-O2 in UK to launch next-gen streaming and gaming Services for its mobile customers, and was recently deployed for Foxtel in Australia, thereby extending the customer list which already includes T-Mobile US and AT&T Mexico.

Slide 13: Progress in Strategic Domains (4/5): 5G, Fixed Wireless Access and Fiber Network Monetization

Switching to advanced connectivity and the monetization of 5G and fiber networks on slide 13, I am pleased to announce an expanded collaboration with Colt, a digital infrastructure company in the UK.

- Colt will leverage Amdocs' digital transformation and inventory management services to streamline its inventory processes, enhance agility, and accelerate time-to-market for new service bundles and upsell strategies to drive greater revenue generation and competitive advantage in the wholesale and enterprise B2B markets.

Slide 14: Progress in Strategic Domains (5/5): Network Automation

Turning to slide 14, Amdocs is positioned for growth in network automation, leveraging our expertise and unique end-to-end offering.

- In South Africa, we are deploying Amdocs cloud-native Helix Service Assurance Suite to modernize CellC's service assurance, marking a significant step in transforming this service providers' fault and performance management, and driving streamlined assurance processes with the power of artificial intelligence and machine learning. Notably, this deal follows Amdocs' acquisition of TEOCO's service assurance business last year, providing another example of the way in which we use M&A as a tool to accelerate our growth strategies.
- Additionally, a major service provider in Southeast Asia recently selected Amdocs to deliver our end-to-end service orchestration solution as an important component of this customer's OSS and cloud modernization program.
- Finally, through its collaboration with Amdocs, SES announced that O3b mPOWER, its second-generation Medium Earth Orbit (MEO) software-enabled satellite system, is now operational and poised to deliver connectivity services worldwide. Amdocs provided support with its industry-leading OSS solutions, encompassing Orchestration, Inventory, and Service Assurance systems.

Slide 15: Current Operating Environment

Now, turning to slide 15, let me say a few words about our market position as we enter the fiscal second half.

- To begin, we continue to operate within a challenging environment of macro uncertainty and industry pressure.
- Having said that, as the preferred technology partner for modernization, we continue to see healthy market demand for Amdocs' innovative products and services around our strategic pillars, which altogether should support another year of double-digit revenue growth in cloud this year.
- Amdocs' market win rate remains high, and I am encouraged by our great progress advancing multiple Gen AI use cases engagements, which we are supporting in collaboration with industry leaders such as Nvidia, Microsoft, and AWS, and several flagship customers.

- Altogether, we expect quarterly revenue growth to accelerate sequentially in the fiscal second half, albeit at a more moderate rate than we initially anticipated, mainly due to a slower pace of pipeline to sales conversion.

<u>Slide 16: Updating our FY24 outlook; remain on track to deliver accelerated profitability improvement</u>

Wrapping everything together on slide 16:

- We now expect revenue growth of between 1.7% to 3.7% on a constant currency basis in fiscal 2024, and.
- We are on-track to deliver accelerated profitability improvement in fiscal 2024, reflecting our constant focus on operational excellence and initiatives to improve business efficiency.
- Overall, we now expect full year non-GAAP diluted earnings per share growth of between 7.0% and 11.0%, which combined with our dividend yield of approximately 2%, positions us to deliver double-digit expected total shareholder returns for the fourth straight year in fiscal 2024.

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

Slide 17: Tamar Rapaport-Dagim, CFO & COO

Thank you, Shuky, and hello everyone. Thank you for joining us.

Slide 18: Q2 FY2024 Financial Highlights

I am pleased with our solid financial performance in the second fiscal quarter, the highlights of which you can see on slide 18.

- Record Q2 revenue of approximately $1.246 billion was up 2.0% year-over-year in constant currency.
- On a reported basis, revenue increased 1.8% year-over-year and was slightly above the midpoint of guidance, including an immaterial impact from foreign currency movements compared to our guidance assumptions.
- On a sequential basis, revenue included an impact from foreign currency movements of approximately $2 million.
- From a geographic perspective, North America declined 0.7% from a year ago, primarily due to slower pipeline-to-sales conversion. This was offset by healthy growth of 8% year-over-year in Europe and a record quarter in Rest of World, which increased 7% as project and managed services activities ramped-up with various customers
- Moving down the income statement, I'm proud to report a non-GAAP operating margin of 18.4% in the second quarter, the highest in many years. Non-GAAP operating margin rose by 60 basis points from a year ago and 30 basis points sequentially, driven by our continued initiatives to improve operational excellence through disciplined resources management, the ongoing adoption of automation and sophisticated tools, and the implementation of AI to drive additional cost and efficiency improvements across our business.
- Interest and other expenses amounted to roughly $8 million in the second quarter, as we continued to see some adverse foreign currency movements in the quarter.
- On the bottom-line, non-GAAP diluted EPS of $1.56 was at the midpoint of guidance and included a non-GAAP effective tax rate of 17.2%, roughly in line with the high end of our annual target range of 13% to 17%.

- Diluted GAAP EPS was $1.01 for the second fiscal quarter. This included a restructuring charge of $33 million, or 24 cents per share, without which diluted GAAP EPS would have been at the midpoint of our guidance range of $1.21 to $1.29. I'll provide more context around the restructuring charge when I discuss our financial outlook later.

Slide 19: Leading Indicators and Business Resiliency: 12-Month Backlog

Moving to slide 19, 12-month backlog was a record $4.23 billion, up approximately 3% from a year ago and $20 million sequentially. Our 12-month backlog reflects healthy sales momentum, which I am pleased to say included new deals spread around the globe and a positive mix of renewals and expansion with existing customers and new logos. To be clear, the significant new deal we just signed with AT&T is not included in our Q2 12-month backlog.

As a reminder, our 12-month backlog has roughly averaged around 80% of forward-looking 12-month revenue over the years and has therefore traditionally served as a good leading indicator of our business.

Slide 20: Leading Indicators and Business Resiliency: Managed Services

Turning to slide 20, managed services revenue was approximately $720 million, up slightly from a year ago as we gradually ramped up new and expanded customer engagements awarded in recent quarters.

Accounting for roughly 58% of total revenue in Q2, managed services support the resiliency of our business with highly recurring revenue streams and a near 100% renewal rate on existing customer agreements.

- As Shuky referenced earlier, Rogers in Canada has expanded its existing collaboration with Amdocs, signing a multi-year managed services extension agreement.
- Demonstrating Amdocs' proven ability to support the market consolidation strategies of our customers, we also signed an expanded multi-year managed services agreement with Colt in the UK, under which Amdocs will provide migration services and consolidate inventory systems following its acquisition of Lumen's EMEA business.
- I am also happy to report that a major Southeast Asian service provider has extended and expanded its partnership with Amdocs through a multi-year BSS managed services agreement, including full cloud managed services and operations. This expansion also includes managing over 100 multi-domain, non-Amdocs apps across multiple public clouds, private clouds, and on-premise.

Slide 21: Balance Sheet & Cash Flow

Now, turning to the balance sheet and cash flow highlights on slide 21.

DSOs of 76 days increased by 2 days year-over-year in Q2. On a sequential basis, DSOs increased by 1 day.

The sequential second quarter change in unbilled receivables net of deferred revenue was $70 million in Q2, aggregating the short-term and long-term balances. As a reminder, the net difference between unbilled receivables and deferred revenue fluctuates from quarter to quarter, in line with normal business activities, as well as our progress on significant, multi-year transformation programs we are currently running in North America.

We generated free cash flow of $113 million in Q2, comprised of cash flow from operations of approximately $133 million, less $20 million in net capital expenditures. Free cash flow reflects the seasonal timing of fiscal year 2023 bonus payments, which typically occur in the second fiscal quarter. Also note that adjusting for restructuring payments of approximately $7 million, reported free cash flow would have been $120 million in the second quarter.

Overall, we ended Q2 with a strong balance sheet, including a healthy cash balance of approximately $544 million, and aggregate borrowings of roughly $650 million.

We have ample liquidity to support our ongoing business needs while retaining the capacity to fund our future strategic growth.

Slide 22: Disciplined Capital Allocation

Turning to capital allocation on slide 22, we repurchased $115 million of our shares in the second quarter and paid cash dividends of $51 million.

Overall, fiscal year to date, we returned a total of $376 million to shareholders through share repurchases and dividends.

For the full year fiscal 2024, we now expect free cash flow of approximately $700 million, excluding restructuring payments of approximately $23 million made in the fiscal first half, and additional payments we anticipate will be made in the second half, as compared with our previous outlook of approximately $750 million. The change mainly reflects the timing of collections related to payment milestones of certain projects which are program and deployment dependent.

Our free cash flow outlook equates to an expected conversion rate of over 90% relative to non-GAAP net income in fiscal 2024 and represents a healthy free cash flow yield of roughly 7% relative to Amdocs' current market capitalization.

Regarding our capital allocations in fiscal year 2024, we expect to return the majority of our free cash flow to shareholders.

Slide 23: FY2024 Revenue Growth Outlook

Now, turning to our revenue outlook on slide 23, we are continuing to closely monitor the prevailing level of macro-economic, geopolitical, business, and operational uncertainty, which remains elevated in the current business environment. Thus, the third quarter and full year fiscal 2024 financial guidance reflects what we consider to be the most likely outcomes based on the information we have today, but we cannot predict all possible scenarios.

To begin, we expect quarterly revenue growth to accelerate on a sequential basis in the fiscal second half, albeit more moderately than we initially expected.

This change primarily reflects slower than anticipated pipeline to sales conversion, mainly due to persistent macro uncertainty and industry pressure.

As we are often asked about it, let me say that our change in revenue outlook is not the result of signed project cancellations, nor have we seen a further deterioration in spending related to legacy system enhancements, headwinds from which we continue to estimate at roughly 3% in fiscal 2024.

Altogether, we now expect revenue growth of between 1.7% to 3.7% year-over-year on a constant currency basis in fiscal 2024, the midpoint of which is roughly 50 basis points lower than our previous outlook of 1.2% to 5.2%.

Our annual outlook includes third fiscal quarter revenue within a range of $1.235 billion to $1.275 billion and assumes an immaterial sequential impact from foreign currency fluctuations as compared to Q2.

On a reported basis, we now expect full year revenue growth in the range of 1.6% to 3.6% year-over-year as compared with 1.1% to 5.1% previously. This outlook incorporates an unfavorable impact from foreign currency fluctuations of approximately 10 basis points year-over-year, unchanged on our previous assumptions.

Slide 24: Accelerated Profitability Improvement

Moving down the income statement, we are on-pace to achieve non-GAAP operating margins within our annual target range of 18.1% to 18.7%, as shown on slide 24.

- For your modelling purposes, we expect our non-GAAP operating margin to be stronger in the fiscal second half than it was in the first two quarters.
- As to the long-term, we are relentlessly focused on improving the company's cost structure and productivity. Leveraging our unique business model, we are utilizing operational excellence as well as technology to fulfill our commitment to profitable growth. With Gen AI presenting a new wave of innovation and capabilities, we are proactively assessing our investment priorities in strategic areas, rebalancing our workforce to the needs of the future and our sites strategy, and optimizing resources such as technology infrastructure and workspace.

- With that in mind, during Q2 we took some initial actions under a new restructuring plan, resulting in the previously mentioned charge of $33 million that was mainly comprised of employee severance and benefits arrangements. We expect to continue to execute on our restructuring plan over the next several quarters, and further updates will be provided as we move along.

Slide 25: FY2024 Non-GAAP EPS Growth Outlook

Bringing everything together on slide 25, we now expect non-GAAP diluted earnings per share growth in the range of 7% to 11% for the full year fiscal 2024, the 9% midpoint of which is roughly 100 basis points lower than our previous outlook.

The change in EPS outlook is primarily driven by slower topline growth, and the impact of “below the line” items, including foreign currency fluctuations and hedging costs which we anticipate will impact non-GAAP net interest and other expense in the range of several million dollars on a quarterly basis.

Additionally, we expect our non-GAAP effective tax rate to be within our unchanged annual target range of 13% to 17% for the full year fiscal 2024. For your modelling purposes, we expect to be at the high-end of this range in Q3, and toward the low-end in Q4.

Overall, we are on-track to deliver expected double-digit total shareholders returns for the fourth year running in fiscal 2024, including our outlook for non-GAAP earnings per share growth, plus our dividend yield of approximately 2%.

Slide 26: Committed to ESG

Before handing back to Shuky, let me mention this year’s Mobile World Congress at which we received great recognition from our customers and partners for Amdocs’ initiatives to positively impact the communications industry and the communities we serve.

Among many highlights, Amdocs was named the TM Forum Moonshot Catalyst winner for our innovative Carbon Footprint Catalog Offering, an AI-based product catalog we’ve developed in collaboration with our partners to enable CSPs to understand the impact of scope 3 emissions and to provide the same to their customers for informed decision making.

I was also delighted by the positive feedback we received following our round table, “Elevating women in Gen AI”, which brought together some of the industry’s most visionary women leaders to discuss the challenging gender gap created by Gen AI, and to explore collaborative opportunities that will help shape the future of women in technology and society.

These and other initiatives demonstrate Amdocs' ongoing commitment to being an ESG industry leader, as reflected by our recent inclusion in the prestigious S&P Global Sustainability Yearbook for 2024, and our fourth consecutive gold rating award at Ecovadis for achieving an overall ESG score in the 95th percentile.

With that, back to you, Shuky.

Slide 28: Q&A

Shuky Sheffer, Chief Executive Officer

Thank you, Tamar.

As I said in my prepared remarks, I am pleased with our solid second quarter results, and while the operating environment remains challenging, I believe our market-leadership, rich pipeline of opportunities, focused execution and commitment to operational excellence positions us to deliver a fourth consecutive year of double-digit expected total shareholder returns in fiscal 2024.

With that, we are happy to take your questions.

Operator?