AMDOCS Q2 2021 CONFERENCE CALL SCRIPT
FINAL

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5:00 pm

Matt Smith:

Thank you, operator. Before we begin, I would like to point out that during this call we will discuss certain financial information that is not prepared in accordance with GAAP.

The Company's management uses this financial information in its internal analysis in order to exclude the effect of acquisitions and other significant items that may have a disproportionate effect in a particular period. Accordingly, management believes that isolating the effects of such events enables management and investors to consistently analyze the critical components and results of operations of the Company's business and to have a meaningful comparison to prior periods. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release which will also be furnished with the SEC on Form 6-K.

Also, this call includes information that constitutes forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risks and uncertainties that may cause future results to differ from those anticipated.

These risks include, but are not limited to, the effects of general economic conditions, the duration and severity of the COVID-19 pandemic, and its impact on the global economy, and such other risks as discussed in our earnings release today and at greater length in the Company's filings with the Securities and Exchange Commission, including in our Annual Report on Form 20-F for the fiscal year ended September 30, 2020 filed on December 14, 2020 and our Form 6-K furnished for the first quarter of fiscal 2021 on February 16, 2021.

Amdocs may elect to update these forward-looking statements at some point in the future; however, the Company specifically disclaims any obligation to do so.

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

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

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

Shuky Sheffer

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

I am pleased to report another strong financial performance in our second fiscal quarter.

My comments today will refer to certain financial metrics on a pro forma basis where applicable to provide you with a sense of the underlying business trends excluding the financial impact of OpenMarket, which we divested on December 31st, as previously announced.

- Revenue in fiscal Q2 was well above the midpoint of guidance and up 5.7% from a year ago on a pro forma constant currency basis
- Operating profitability exceeded the high-end of our target range as we balanced accelerated R&D as a percent of revenue with a continued focus on operational excellence
- Free cash flow generation was also robust, driven by the successful delivery of project invoicing milestones and healthy cash collections with customers.

During Q2, we returned a record quarterly cash amount of more than $400 million to shareholders by way of share repurchases and dividends. This included the net proceeds from OpenMarket, in line with the commitment we made to shareholders in the prior quarter.

This was also another quarter of strong sales momentum, led by growing demand for our digital and 5G offerings. Additionally, we solidified our market leadership in the public cloud domain by utilizing our strong balance sheet to acquire Sourced Group, a leading global cloud consultancy business, for a net consideration of roughly $75 million cash.

Before moving on, let me take a moment to address the situation in India where the COVID-19 pandemic has recently escalated.

My thoughts are with all our Indian employees, their family members and the community at large during these extremely challenging times. To those who have suffered personal loss, I would like to express my deepest sympathies, and to those whose health has been impacted by the virus, I offer you my warmest wishes and hope that you quickly make a full and speedy recovery.

Our priority is the health and well-being of our employees and we are investing resources to provide support for those most affected by the pandemic, which includes making vaccinations available faster wherever possible.

From an operational perspective, we can leverage the scale and flexibility of our global delivery model and our extensive capabilities in other parts of the world, such as the US and the UK, where the state of the pandemic is much improved, and our core development and delivery centers in Israel where our activities are pretty much back to the offices. We are monitoring the situation in India daily to ensure business continuity for our customers.

I am proud of our employees and I thank them all for their dedication and commitment throughout the pandemic, and their ability to collaborate with and support one another during this difficult time.

Now, let me provide some color regarding our regional performance during Q2.

Beginning with North America, we delivered our best-ever quarter on a pro forma basis as healthy levels of customer activity continued throughout the region.

- As North America emerges from the pandemic, 5G networks and fast and secure broadband connectivity has become recognized as a backbone of society. Service providers are investing heavily in fiber and 5G deployment, as witnessed by the many billions of dollars they allocated in the recent C-band spectrum auctions.

- To monetize their investments and maximize ROI, service providers must bring exciting new 5G offers and services to their consumer and enterprise customers. To meet this need, our customers are in a multi-year investments cycle in digital and 5G systems modernization, cloud migration, and next-generation OSS platforms for networks, all of which Amdocs is well positioned to support with our cloud-native products and IP-based services.

- Let me take you through a series of examples to show how we are supporting our customers as they build their capabilities to address these market dynamics.

- At AT&T, we are executing a wide scope of activities under the 4-year managed services deal we announced in November 2019, on top of which, we are accelerating new programs to modernize its consumer mobility domain, support the journey to the cloud and deploy 5G monetization solutions leveraging Openet's charging and policy capabilities.

- In T-Mobile, we are accelerating the digital transformation under the strategic multi-year agreement we announced last quarter, implementing the amdocsONE product portfolio to support next generation communication services for its consumer and business customers, and next generation hybrid-cloud operations in the form of a multi-year managed services engagement.

- At Verizon, we are implementing Amdocs CatalogONE, our cloud-native platform designed to rapidly create and launch new 5G service offerings, and we are now progressing an additional program in the network domain which leverages Amdocs NEO, our cloud-native, next-generation OSS 5G platform for service and network automation. NEO allows service providers to harness the power of cloud-based, virtualized networks that are more dynamic, agile, and scalable.

- Around cable and media, we are also busy.
    - We just completed a successful subscriber migration for Altice USA following its acquisition of Service Electric Cable TV last year, and we are continuing to implement our BSS and OSS platform for Comcast Business.

    - At Charter, we are deploying our systems to support Spectrum Mobile under the multi-year managed services agreement we announced last quarter, and we were recently selected by DISH to provide cloud-based billing for enterprise and wholesale customers on its next-generation 5G network.

    - Amdocs Media's Vindicia also extended its long-term engagement with Vimeo which will continue to use Vindicia's cloud-based SaaS solutions to enhance monetization of its subscription and one-time purchase services.

Moving to Europe, we delivered healthy year-over-year revenue growth on a pro forma basis as we continued to progress digital transformation projects to support improved customer experience, operating efficiency and multiplay convergence strategies for our customers.

- During the quarter, we saw continued demand for Openet's 5G charging and policy solution, which a major Tier 1 operator in the UK recently implemented on the AWS public cloud to support its global IoT platform.

- In Italy, we expanded an existing relationship with Fastweb which selected Amdocs to modernize its mission-critical inventory systems as part of a transformation to create a 5G-ready platform to grow and differentiate its business, and

- We expanded our relationship with SES, a world-leading content connectivity solutions provider, which selected Amdocs' end-to-end testing framework to automate its flow validation process.

Turning to the Rest of World, revenue grew year-over-year, and we began to see early but encouraging signs of recovery in Latin America.

- Amdocs was selected by America Movil to deliver a digital transformation in CLARO Chile and CLARO Puerto Rico, and

- Amdocs has signed a three-year agreement with Claro Brazil to support Claro's post-paid business and to provide services and solutions for its digital transformation.

- In Chile, Vubiquity extended its long-standing relationship with VTR, part of Liberty Global, and we signed a multi-year agreement with Telefónica Hispam to provide content, licensing, and processing for the Movistar Play service in five markets, including Argentina, Chile and Peru.

- In Southeast Asia, Globe Telecom in the Philippines implemented our next-generation, cloud native CatalogONE and DigitalONE platforms for its enterprise business which we will operate and maintain under a multi-year managed services contract. We strengthened our partnership with India's Airtel where we completed the seamless migration of Airtel wireless postpaid customers to Amdocs' modern digital-business system, and we signed a new deal to provide Openet's charging and data management products on Microsoft Azure for M1 Limited in Singapore.

Moving on, let me update you on our strategy to grow by accelerating the communications industry's journey to the cloud.

- As we outlined a few quarters ago, Amdocs brings a full range of products and services with which to offer every customer a ready and tailor-made journey to the cloud. I am pleased to report that we see an attractive and expanding pipeline of opportunity which we hope to accelerate with the recent steps we have taken to solidify our leadership in this domain.

    - First, we are today pleased to announce the acquisition of Sourced Group, a leading global technology consultancy specializing in large-scale cloud transformations for sophisticated, high-end enterprise customers in different industries such as communications and financial services across North America, Asia-Pacific and Australia.

        - Sourced Group is part of our wider cross-company investment in the cloud and brings a proven cloud migration platform, deployment and landing zone framework, and trusted design process, alongside its deep partnerships with AWS, Microsoft Azure and Google Cloud.

        - This acquisition also complements our portfolio of cloud-native products and services, and further expands and diversifies our customer base, allowing us to implement cloud at scale.

        - We are delighted the innovative Sourced team is joining Amdocs and we are proud to bring such great professionals and practices to our industry.

- Second, I am pleased to announce an expanded strategic collaboration with Microsoft to widen the availability of our portfolio on Azure. The collaboration will enable service providers to transform with cloud-native solutions and cloud services and deploy 5G networks in the cloud with Azure for Operators, automated by the Amdocs NEO suite and monetized by Amdocs Charging.

- We have also extended our multi-year strategic agreement with AWS to include Vindicia's subscription management portfolio provided on AWS' global cloud.

To wrap-up, let me briefly comment on the outlook for the remainder of the fiscal year 2021.

- We are raising our guidance for full year revenue growth to reflect our solid performance in the first two quarters and our expectation for a stronger second half.

- Our confidence is supported by the visibility of our 12-month backlog, which is up more than 9% from a year ago on a pro forma basis, and believe there is a rich pipeline of opportunities across our operating regions which we are working hard to monetize by executing on our growth strategy.

- With our focus on profitability and the disciplined use of cash, we now expect to deliver double-digit total shareholder returns in fiscal 2021, including an improved outlook for pro forma non-GAAP earnings per share growth, plus our dividend yield.

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

Tamar Rapaport-Dagim

Thank you, Shuky.

Let me start with a quick housekeeping item with respect to OpenMarket which was included in our reported numbers for income statement and cash flow in the first fiscal quarter fiscal 2021 but is excluded for the second fiscal quarter fiscal 2021 following the completed divestiture of this asset on December 31, 2020. To provide you with a sense of the underlying business trends my comments today will refer to certain financial metrics on a pro forma basis, which exclude the financial impact of OpenMarket from the current fiscal year and comparable fiscal year period.

Second fiscal quarter revenue of $1,049 million significantly exceeded the midpoint of our guidance range of $1,015 million to $1,055 million. Revenue includes a positive impact from foreign currency fluctuations of approximately $3 million relative to the first fiscal quarter of 2021 and a negative impact of $1 million relative to guidance. Additionally, Q2 revenue included a small amount of less than $2 million from two acquisitions, which we closed in the month of March: Sourced Group, the cloud consulting company Shuky mentioned, and another small one which I will describe later.

On a pro forma basis, revenue grew by 5.7% year-over-year in constant currency in the second fiscal quarter.

Our second quarter revenue as reported grew by 0.1% year-over-year and was down 1.4% on constant currency, given the comparable quarter of last year still includes OpenMarket results.

Our second fiscal quarter non-GAAP operating margin of 17.6% exceeded the high-end of our long-term target range of 16.5% to 17.5% and was up 30 basis points sequentially and 40 basis points from a year ago. The non-GAAP operating margin improvement reflects the divestiture of OpenMarket as well as initiatives of operational excellence, while accelerating our R&D investment in our strategic growth domains of digital, 5G and the cloud.

Below the operating line, non-GAAP net interest and other expense was $3.9 million in Q2, the mix of which includes interest expense related to our short-term borrowings and 10-year bond, and the impact of foreign currency fluctuations. For forward-looking purposes, we expect that foreign currency fluctuations will continue to impact our non-GAAP net interest and other expense line in the range of a few million dollars on a quarterly basis.

Diluted non-GAAP EPS was $1.13 in Q2, slightly above the midpoint of our guidance range of $1.09 to $1.15. Our non-GAAP effective tax rate was 18.2% in the second fiscal quarter, yet we are on-track to meet our annual target range of 13% to 17%.

Diluted GAAP EPS was $0.91 for the second fiscal quarter, in line with the midpoint of our guidance range of $0.87 to $0.95.

Normalized free cash flow was $133 million in the second fiscal quarter, up significantly as compared to $76 million a year ago.

On a reported basis, free cash flow was $70 million in Q2. This was comprised of cash flow from operations of approximately $120 million, less $49 million in net capital expenditures and other, and included the annual cash bonus payment to our employees in January for the prior fiscal year 2020, consistent with our guidance last quarter.

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 79 days decreased by 3 days year-over-year and increased by 1 day as compared to the prior fiscal quarter. We remind you that DSO's may fluctuate from quarter to quarter.

As of March 31, total deferred revenue exceeded total unbilled receivables by $167 million. This reflects a decrease in total unbilled receivables of $19 million and an increase in total deferred revenue of $8 million as compared to the first fiscal quarter of 2021. Changes in unbilled receivables and total deferred revenue are primarily due to the timing of contract-specific milestones. Moving forward, you should expect these items to fluctuate from quarter to quarter in line with normal business activities.

Moving on, our 12-month backlog was $3.54 billion at the end of the second fiscal quarter, up approximately $50 million from the end of the prior quarter. On a pro forma basis, our 12-month backlog was up roughly 9.3% year-over-year. As a reminder, we believe our 12-month backlog continues to serve as a good leading indicator of our forward-looking revenue.

I am pleased to report another record quarter from managed services arrangements which comprised roughly 61% of total revenue. This performance reflects high renewal rates, the adoption of our managed transformation model and the continued expansion of activities within existing customers. To clarify, the OpenMarket business was not classified as Managed Services and therefore its exit does not impact our revenue from managed services.

Our cash balance at the end of the second fiscal quarter was approximately $1.2 billion, including aggregate borrowings of roughly $750 million.

Our balance sheet reflects the acquisition of Sourced Group, a leading global technology consultancy, for a net consideration of roughly $75 million in cash. Additionally, we recently completed two small acquisitions. One in March but still within fiscal Q2, and the second in April. In the first small acquisition, projekt202, our digital experience group subsidiary, acquired ADK for a net consideration of roughly $14 million cash. Based in Boston, ADK is a user-experience and application development company which complements projekt202's capabilities, and has a diversified list of global enterprise customers, including Santander Bank, Mercer and Brown Forman.

Clearbridge Mobile is the second small acquisition for a net consideration of roughly $15 million cash, targeted to further expand our digital portfolio capabilities. Clearbridge is a Toronto-based mobile app development company which provides user-centric design and engineering service for telcos such as such as Bell Canada and Rogers, and non-telco customers like YES Network and TD Bank.

For all three recent acquisitions, additional consideration may be paid later based on the achievement of certain performance metrics.

As additional color on use of capital, in early May we repaid the $100 million short-term bank loan we took on during the early part of the COVID-19 pandemic last year. This repayment was executed according to schedule under the original terms of the loan agreement.

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

Now turning to the outlook, the prevailing level of macro-economic, business, and operational uncertainty surrounding the magnitude and duration of the COVID-19 pandemic remains elevated, including the recently escalated situation in India. The midpoint of our revenue guidance reflects what we consider to be the most likely outcomes based on the information we have today, but we cannot predict all possible scenarios.

We expect revenue for the third fiscal quarter of 2021 to be within a range of $1.04 billion to $1.08 billion. Our Q3 revenue guidance anticipates a negative sequential impact of approximately $3 million from foreign currency fluctuations. Additionally, our guidance incorporates the benefit of the recently completed acquisitions I just discussed.

Regarding the full fiscal year 2021, we are raising our outlook for revenue growth on a pro forma basis to a new range of approximately 5.0% to 8.0% year-over-year constant currency, as compared to our previous range of 3.5% to 7.5% year-over-year. The new outlook equates to an improvement of roughly 100 basis points at the midpoint of the range, about half of which is attributable to the core business, and the other half from recently completed M&A.

On a reported basis, we now expect full year revenue growth in the range of 1.0% to 4.0% year-over-year as compared with our previous range of negative (0.3)% to plus 3.7% year-over-year.

The adjusted revenue outlook on a reported basis anticipates a positive impact from foreign currency fluctuations of approximately 1.0% year-over-year as compared to a positive impact of 1.2% previously.

Additionally, our outlook remains consistent with our previous guidance for an acceleration in the rate of year-over-year revenue growth on a pro forma basis in the fiscal second half. Moreover, we still expect all three geographical regions to deliver revenue growth on a pro forma basis for the full year fiscal 2021.

As a final point to further help with your modelling, we remind you that we originally planned for OpenMarket to contribute revenue in the range of $300 million for the full year fiscal 2021, roughly 75% of which was expected from North America, with Europe accounting for the rest.

Regarding profitability, we continue to anticipate quarterly non-GAAP operating margins to track roughly in line with the high-end of the annual target range of 16.5% to 17.5%. This outlook assumes accelerated R&D investment as a percent of total revenue to support our customers and future strategy, balanced with our continued focus on delivering operational excellence.

We expect the third fiscal quarter diluted non-GAAP EPS to be in the range of $1.14 to $1.20.

Our third fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 128 million shares. We excluded the impact of incremental future share buyback activity during the third fiscal quarter, as the level of activity will depend on market conditions.

Regarding the full year fiscal 2021, we are raising our outlook for non-GAAP diluted earnings per share growth to a new range of 7.5% to 10.5% on a pro forma basis, as compared to 5.5% to 9.5% previously. The improved outlook is mainly the result of better business fundamentals.

On a reported basis, we expect to deliver full year diluted non-GAAP EPS growth of 6.0% to 9.0% year-over-year as compared to 4.0% to 8.0% year-over-year previously. As a reminder, this outlook includes the impact of OpenMarket for the first fiscal quarter only.

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

We now expect normalized free cash flow for fiscal year 2021 of approximately $820 million, which is slightly improved from our prior guidance of $800 million. The outlook is equivalent to about 8% of Amdocs' market capitalization and represents a conversion rate of roughly 130% relative to our expectations for non-GAAP net income. As a reminder, we expect free cash flow to convert at a rate more on par with our expected non-GAAP net income over the long-term.

Additionally, we now expect slightly better reported free cash flow for fiscal year 2021 of approximately $620 million, as compared with $600 million previously. Our reported free cash flow outlook anticipates expenditures of roughly $140 million in relation to the development of our new campus in Israel, $40 million of capital gains tax in relation to the divesture of OpenMarket, and other items. As previously stated, we expect fiscal 2021 to be the peak year of capital expenditure for the new campus. Note that the gap between expected free cash flow on a normalized and reported basis has widened, primarily due to tax in relation to the capital gain of OpenMarket.

During the second fiscal quarter, we repurchased $360 million of our ordinary shares under our current authorization, including roughly $260 million funded by the net proceeds from OpenMarket, as we committed to in the previous quarter. Roughly $100 million of our share repurchases in Q2 were executed as part of our regular share repurchase program.

Regarding our capital allocations plans for the rest of fiscal 2021, we expect to return a majority of our normalized free cash flow to shareholders in the form of our quarterly dividend and share repurchase programs, subject to factors such as the status of the COVID-19 pandemic, the outlook for M&A, financial markets and prevailing industry conditions.

As of March 31, we had roughly $228 million of authorized capacity for share repurchases. Additionally, our Board has today authorized another share repurchase plan of $1.0 billion which we will execute at the company's discretion going forward.

Overall, we remain on-track to deliver accelerated pro forma revenue growth, improved profitability and strong free cash flow in fiscal 2021, the combination of which now supports an outlook for double-digit total shareholders returns of roughly 11%, including the 9.0% midpoint of our pro forma non-GAAP earnings per share growth guidance, plus our dividend yield.

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

Closing Remarks:

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