

AMDOCS Q3 2022 CONFERENCE CALL SCRIPT
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August 3, 2022
5:00 pm

Matthew Smith

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 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 third quarter fiscal 2022 and will update you on the continued progress we have made executing against our strategic growth framework.

Shuky will finish by commenting on our financial outlook, after which Tamar will provide additional details on our third quarter financial performance and guidance.

As a reminder, our 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, 2020.

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

Slide 5: Shuky Sheffer

Shuky Sheffer, Chief Executive Officer

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

Slide 6: Solid Q3 Results, Including Record Revenue and 12-Month Backlog

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I am happy to report a **solid** third quarter financial performance, reflecting **strong** demand for our products and service expertise across our core strategic growth pillars of 5G monetization, cloud adoption, digital modernization, and network automation.

As you can see from the highlights on slide 6:

- **We delivered record** revenue of \$1.16 billion in Q3, which was at the midpoint of guidance despite unfavorable foreign currency headwinds as compared with our assumptions.
- Adjusting for currency, revenue was up 10.8% year-over-year.
- Additionally, we maintained **robust** sales momentum which translated to **record** 12-month backlog of \$3.95 billion, up 10% from a year ago and the fifth consecutive quarter of **roughly double-digit year-over-year** growth in this key leading indicator.
- On the bottom-line, we delivered non-GAAP earnings per share of \$1.27 which was **better** than the midpoint of guidance.

Overall, we **successfully** achieved our financial targets for revenue, profitability, and non-GAAP diluted earnings per share for the quarter, despite volatile foreign currency markets and inflation-related cost pressures, which we successfully **navigated** with a continued focus on **operational excellence** across **all** aspects of our business.

Slide 7: Q3 Operational Highlights

Now, turning to slide 7, let me address the key operating highlights of our Q3 performance.

- To begin, our global business activity was strong, led by yet another **record** quarter in North America.
- While we are closely monitoring the **uncertain global macroeconomic environment and potential headwinds**, we believe our customers remain committed to their most strategic initiatives, **central** to which is the innovation Amdocs is delivering in respect to digital modernization, 5G and fiber rollout and monetization, the journey to the cloud and network automation.
 - In addition to North America, we continue to view Europe as a **strategic** long-term **growth engine** for Amdocs. Adjusting for currency movements, Europe showed signs of second half acceleration as projects awarded in recent quarters started to **ramp-up** at customers like **PPF Group, 3UK**, and various **Vodafone Group** affiliates.

- **Q3 was also another quarter of robust sales momentum.**
 - We strengthened relationships with **large** and **long-standing** customers like **T-Mobile**, and **AT&T's Cricket Wireless**, where we are happy to say that we **expanded** our managed services engagement for an additional 5-years, as Tamar will touch on later.
 - **Additionally**, we further grew our footprint within other **major** operators, including **Vodafone Germany** which has selected Amdocs for a follow-on digital transformation project.
- **Consistent operating execution was another Q3 highlight.** We successfully deployed **many** project milestones on behalf of our customers, including the migration of more than **27 million** customers as part of a multi-year managed digital transformation project for **XL** in Indonesia, which enables them to launch innovative digital services and enhanced customer experiences.
 - Additionally, we reached millions of Brazilian subscribers across all cities covered by **Telefonica VIVO**, in relation to the full BSS quad play transformation we are executing to enable them to combine multi-lines of products in order to deliver more valuable customer interactions.
- Reflecting our commitment to continuously bring fresh innovation to our customers, we further increased R&D investments on our cloud platforms in Q3. Additionally, we announced a definitive agreement to acquire **MYCOM OSI** for \$188 million cash, details of which are on slide 8.

Slide 8: MYCOM OSI will expand our end-to end network portfolio

- Headquartered in the UK, MYCOM OSI is expected to expand Amdocs' network portfolio to include end-to-end service and network orchestration by bringing key SaaS-based assurance platform capabilities to power the next generation of networks.
- Service assurance is a **key ingredient** in the race to deliver **differentiated** experiences within 5G.
- MYCOM OSI therefore represents a growth move that **complements** our other recent deals in the network and cloud space, while **executing** on **three** of our core strategic pillars – intelligent network automation, 5G and cloud.
- MYCOM OSI is on-track to close in the first quarter of fiscal 2023, and we look forward to combining our own expertise with that of the highly talented MYCOM OSI team to create a unique and broad range of complementary and innovative platforms.

Slide 9: Progress in Strategic Domains

Now, let's take a closer look at our recent progress executing against our four-pillar growth strategy of cloud, 5G, digital and network automation, as shown on slide 9:

Beginning with cloud services, we secured multiple new wins with North American customers this quarter

- At **AT&T's Cricket Wireless**, we further expanded our operations, development and testing, leveraging our cloud-native technology.
- **T-Mobile USA** extended Amdocs' Digital Bill Presentment product to its enterprise customers. Our cloud-based service provides a cost-effective solution, to help personalize the message to each business customer, boosting engagement and increasing satisfaction, all while driving to an **eco-friendly** footprint.
- Additionally, Amdocs was selected by **Dish** and **AWS** to support Dish's 5G ORAN rollout. This enables Dish to drive towards a more intelligent, open, virtualized and fully interoperable mobile cloud network.

In **5G**, we recently completed an exciting proof of concept with **A1 Telekom Austria Group**, during which we **showcased** the ability of **5G standalone networks** to **unlock** the **metaverse** and other next-generation Web 3 experiences with **on-demand connectivity** for consumers and enterprises.

- Moreover, our collaboration with A1 demonstrated the **monetization potential** of such new revenue streams for telcos by significantly reducing the launch time to market with new and innovative commercial models.

Switching to **Digital**, we are excited to announce that **Vodafone Germany** has chosen Amdocs to further **accelerate** its digital transformation under a **new multi-year** deal that will harmonize the customer experience across all touch points and improve operating efficiency by consolidating technology across different lines of business.

- This project follows an initial production launch under the large strategic transformation project we won with Vodafone Germany in 2019, and further **strengthens** and **deepens** Amdocs' existing relationship with this major operator.
- Additionally, we are happy that **Comcast** is expanding Amdocs' Bill Presentment solution to support its Business Services customers.

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Moving to **network automation**, we expanded our scope of activities with some of the world's largest operators during Q3.

- As multi-orbit satellite operators continue to deliver enhanced forms of connectivity, we are excited that **SES** selected Amdocs to provide end-to-end service orchestration solutions across additional lines of business, allowing more SES customers to benefit from faster turn-around time for orders, reduced handover times and improved access to the operator's new products, services, and tools.
- **Additionally, America Movil** selected Amdocs to deliver its latest Policy & Charging products in **several** countries in Latin America.

Finally, let me quickly comment on **AmdocsMedia**, which recently collaborated with a **major** UK content provider to launch a new subscription streaming offering that is powered by our cloud-based, **SaaS MarketONE platform**.

- MarketONE will enable the delivery of personalized, flexible, and seamless access to a vast catalogue of premium on-demand content for this customer, which is the latest in a **growing list** of operators that have chosen the flexibility and scalability of this platform, including **Virgin Media O2, T-Mobile USA, AT&T Mexico, XL**, and others.
- Among other AmdocsMedia deals this quarter, **Vubiquity** expanded its multi-year content services agreement with **Oi Brazil** and signed a multi-year deal with **Edison Interactive** to provide licensed premium content for the hospitality industry, including major hotel brands, hotel ownership groups as well as gaming and resort properties. Additionally, **Vindicia is** collaborating with **ACI Worldwide** to provide subscription-based merchants with a turnkey integrated payments solution.

Slide 10: Confident in our Unique Business Model

Now, turning to our financial outlook on slide 10.

As I mentioned before, while we are closely monitoring the **uncertain global macroeconomic environment and potential headwinds**, we are confident in our unique business model that enables:

- **Mission critical** products and services, **aligned** with the strategic needs of our customers
- **Highly recurring** revenue streams, and
- **Long-term** customer engagements.

More broadly, we believe that connectivity continues to be a **cornerstone** of society -- essential to supporting hybrid environments for work, education, entertainment and

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much more. We believe that service providers are still in the early stages of a multi-year 5G and cloud-driven investment cycle, at the heart of which is Amdocs as a key technology enabler.

In fact, as service providers look for new growth opportunities in the 5G era, we believe Amdocs has never been better positioned as a **highly relevant** and **trusted** partner to help them achieve their goals. Our **industry-leading** product and services cloud portfolio delivers **amazing** customer experiences, **reduces** costs, and **improves** efficiency – helping service providers around the world to **delight** their customers and **operate** more **sustainably**.

Consistent with this view, we continue to see a **strong** demand environment and a **rich pipeline** of opportunities, as supported by the **many** customer visits and **top-level** management interactions we have recently seen.

Slide 11: Looking ahead: On-track to achieve our accelerated growth targets

Tying everything together on slide 11, we remain well on-track to deliver accelerated revenue growth of roughly 10% on a pro forma constant currency basis for the full year fiscal 2022, our visibility to which is underpinned by our record 12-month backlog and strong year to date financial performance.

Similarly, we are **on-track** to meet our guidance for pro forma non-GAAP diluted earnings per share growth of roughly 12% for the full year fiscal 2022, and with our dividend yield of roughly 2% on top, we are positioned to deliver **double-digit** expected total shareholder returns for the **second** year running.

Slide 12 Amdocs' Commitment to Social Responsibility and Sustainability

Before handing over to Tamar, let me highlight our new 2021-2022 Corporate Social Responsibility and ESG report, which we used as the platform for our first-ever ESG webinar for analysts and investors following its publication in June.

As you know, we take our responsibility to our customers, their end users, our employees, the wider community and of course our investors, very seriously.

Given our corporate purpose to enrich lives and progress society with creativity and technology, we focus on delivering sustainable products and drive digital inclusion, which we believe promote diversity and inclusion and improve the well-being of our employees and the people in our communities.

AmdocsMedia recently provided a great example, where **Vubiquity** is working with **Signed Studios** to provide a complete end-to-end technology solution for a new streaming platform that exclusively provides premium quality sign language content to the Deaf and Hard of Hearing, representing a worldwide community of over 430 million people. This innovative work includes Vubiquity's unique creative and technical

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designing of the platform, the curation of the content, and the innovative personalization of the user experience

Slide 13: Thank you!

I would like to take this opportunity to acknowledge and thank all our customers, partners, shareholders, and communities for together working to create a better-connected world.

I'd particularly like to call out our global and diverse base of incredibly talented employees and thank them all for their amazing devotion to turning the boldest ideas into reality.

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

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Slide 14: Tamar Rapaport-Dagim

Tamar Rapaport-Dagim, Chief Financial Officer & Chief Operating Officer

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

As a reminder, my comments today will refer to certain financial metrics on a pro forma basis, which exclude the financial impact of OpenMarket, which we divested on December 31, 2020.

Slide 15: Q3 FY2022 Financial Highlights

Turning to our financial highlights on slide 15, I am happy with our third quarter results which follow the **very strong** first half performance we already delivered.

Record Q3 revenue of \$1.16 billion was up 8.8% year-over-year as reported, primarily driven by yet **another** record performance in North America.

Q3 revenue was at the midpoint of guidance, despite an unfavorable impact from foreign currency movements of approximately \$7 million compared to our guidance assumptions and relative to the second quarter of fiscal 2022.

Additionally, revenue was up 10.8% in constant currency from a year ago, marking the fourth consecutive quarter of better than 10% revenue growth on a pro forma, constant currency basis,

During Q3, foreign currency headwinds primarily impacted our performance in Europe, adjusting for which revenue showed initial signs of **acceleration** as the ramp-up of recent project awards kicked-in.

Moving down the income statement, our Q3 non-GAAP operating margin of 17.6% was **consistent** with the prior quarter and year ago period as we offset the effects of accelerated R&D investments and a competitive labor environment with our relentless focus on operational excellence— including the ongoing implementation of automation and other sophisticated tools designed to continuously improve efficiency.

As a reminder, our foreign currency hedging program is designed to **protect** our **profitability** and **free cash flow** generation rather than revenue, and we are once again pleased that this strategy has proven effective through the volatile currency markets of Q3.

On the bottom-line, non-GAAP diluted EPS of \$1.27 was **above** the midpoint of our guidance range. Diluted non-GAAP EPS included a non-GAAP effective tax rate of 20.6%, which as we expected was **above** the high end of our annual non-GAAP effective tax rate guidance of 13.0% to 17.0% for the full fiscal year 2022.

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Diluted GAAP EPS was \$1.04 for the third fiscal quarter, which was towards the **high** end of the guidance range of \$0.97 to \$1.05.

Slide 16: Leading Indicators and Business Resiliency: 12-Month Backlog

Moving to slide 16, **robust** sales momentum during the third quarter translated to **record-high** 12-month backlog of \$3.95 billion which was up 10% from a year ago. On a sequential basis, 12-month backlog was up by \$60 million as compared to the second quarter.

Given the overall nature of the work included, our twelve-month backlog has traditionally served as a **good leading indicator** of our business, having consistently averaged around 80% of forward-looking 12-month revenue over the years.

Slide 17: Leading Indicators and Business Resiliency: Managed Services

Turning to slide 17, managed services delivered a **record** quarter in Q3. Revenue of \$718 million was up roughly 10% from a year ago and accounted for about 62% of total.

Our multi-year managed services engagements underpin the **resiliency** of our business with **recurring** revenue streams, **high renewal rates** and **expanded** activities which may sometimes include **transformation projects** with existing customers.

A prime example of our proven ability to successfully renew and expand our customer relationships is **AT&T Cricket Wireless**, as Shuky highlighted earlier. This new agreement extends our long-standing relationship with Cricket for an additional five years. Moreover, the deal expands our relationship to include incident management and next-generation digital catalog, leveraging our latest cloud-native technologies to ensure the best possible experience for Cricket's business and customers.

Slide 18: Balance Sheet & Cash Flow

Turning to the balance sheet and cash flow, as you can see in slide 18. DSOs of 82 days **increased** by 3 days year-over-year and 1 day sequentially in Q3. The increase in DSO's primarily reflects a large number of **successful milestone deliveries achieved** in North America in the quarter, and timing differences between the subsequent **invoicing** of customers **triggered** by those milestones, and payment by the customers. Additionally, the net positive difference of deferred revenue and unbilled receivables improved by \$62 million as compared with a year ago.

We generated normalized free cash flow of \$144 million, positioning us to achieve our target of \$650 million for the full fiscal year 2022.

Overall, we ended the quarter with a strong cash balance of approximately \$850 million, including aggregate borrowings of roughly \$650 million. Our balance sheet remains

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strong, and with ample liquidity we expect to be in a good position to continue to support our ongoing business needs while retaining the capacity to fund our future strategic growth investments. Along those lines, we expect to close the acquisition of **MYCOM OSI** for roughly \$188 million cash in the first fiscal quarter 2023.

Slide 19: Disciplined Capital Allocation

Turning to capital allocation on slide 19.

As you can see in the first chart, we repurchased \$100 million of our shares in the third quarter. Including cash dividend payments of \$49 million, we returned \$149 million to shareholders in Q3, equating to more than 100% of normalized free cash flow.

Taking into consideration our quarterly cash dividend payments and ongoing share repurchase program, we now expect to return **slightly more** than 100% of our normalized free cash flow to shareholders for the full year fiscal 2022.

While we are experiencing strong growth momentum in our business, our expected normalized free cash flow outlook of \$650 million in fiscal 2022 equates to a conversion rate of roughly 100% of non-GAAP net income. It also represents a **healthy** free cash flow yield of roughly 6% relative to Amdocs' current market capitalization.

Over the long-term, we remind you that the rate of normalized free cash flow conversion may fluctuate slightly above or below our long-term average of 100% in any given year.

As an additional point, our fiscal 2022 normalized free cash flow outlook now excludes anticipated capex of about \$110 million in relation to the development of our new Israel campus. This is less than our previous guidance of roughly \$131 million, primarily due to the timing of payments which have moved into fiscal year 2023. Accordingly, we have raised our reported free cash flow outlook for fiscal 2022 to \$520 million.

Slide 20: Q4 & FY2022 Outlook

Now, turning to our outlook on slide 20.

As Shuky mentioned earlier, we are **closely monitoring** the prevailing level of macro-economic, business, and operational uncertainty, which remains elevated, including with respect to the magnitude and duration of the COVID-19 pandemic. The fourth quarter and full year fiscal 2022 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 are on-track to deliver full year fiscal 2022 revenue growth of roughly 10% on a pro forma constant currency basis, in line with the midpoint of our new guidance range of 9.6% to 10.6%. Additionally, we continue to expect growth on a constant currency basis in each of our three operating regions of North America, Europe, and Rest of World in fiscal 2022.

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Our annual outlook includes fourth fiscal quarter revenue within a range of \$1.145 billion to \$1.185 billion, the midpoint of which represents the most likely outcome based on our internal analysis.

On a reported basis, we expect full year revenue growth consistent with the **midpoint** of our guidance range of 6.2% to 7.2% year-over-year, which now anticipates an unfavorable foreign currency impact of approximately 120 basis points year-over-year, as compared with our previous expectation of 80 basis points.

Moving down the income statement, we anticipate non-GAAP operating margins to track roughly in line with the **midpoint** of our annual target range of 17.2% to 17.8% in the fiscal **fourth** quarter. This outlook continues to assume an accelerated pace of R&D investment, in line with our strategy, balanced with our constant focus on operational excellence.

Below the operating line, we anticipate 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.

As previously anticipated, we expect that our non-GAAP effective tax rate in the **fourth** fiscal quarter will be **above the high-end** of our annual target range of 13.0% to 17.0%. For the full year fiscal 2022, we expect our non-GAAP effective tax rate to be within the annual target range.

Bringing everything together, we are on-track to meet our guidance for pro forma non-GAAP diluted earnings per share growth of approximately 12% for the full year fiscal 2022, roughly consistent with the midpoint of our guidance range of 11.2% to 12.5%.

On a reported basis, we expect non-GAAP diluted earnings per share growth in line with the **midpoint** of our guidance range of 9.6% to 10.9% year-over-year.

Overall, we are **firmly** on-track to deliver **double-digit** total shareholders returns for the second fiscal year running in 2022, assuming the midpoint of our pro forma non-GAAP earnings per share growth guidance of roughly 12%, plus our dividend yield.

With that, back to you, Shuky

Slide 21: Q&A

Shuky Sheffer, Chief Executive Officer

Thank you, Tamar.

As you can probably tell from our remarks today, we are pleased with our sales momentum and overall level of execution in Q3, and we remain confident in our strategy

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and ability to deliver on our full year financial targets. With that, we are happy to take your questions. Operator?