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DOX - Q3 2017 Amdocs Ltd Earnings Call

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OVERVIEW:

DOX reported 3Q17 revenue of $967m and GAAP diluted EPS of $0.81. Co. expects 4Q17 revenue to be $955-995m and non-GAAP diluted EPS to be $0.91-0.97.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q3 2017 Amdocs Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to turn the conference over to Matthew Smith, Head of Investor Relations. Sir, you may begin.

Matthew E. Smith - *Amdocs Limited - Secretary*

Thank you, Ashley. Before we begin, I would like to point out that during this call, we will discuss certain financial information that is not 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 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, 2016, filed on December 12, 2016, and our Form 6-K furnished for the first quarter of fiscal 2017 on February 13, 2017, and for the second quarter of fiscal 2017 on May 22, 2017. 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 Eli Gelman, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Chief Financial Officer.

And with that, I'll turn the table to Eli.

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

Thank you, Matt, and good afternoon to anyone joining us on the call today. I am pleased to report a solid quarter 3 performance, which reflects another quarter of record revenue, our highest level of profitability in recent years and strong sales momentum that included key awards in highly strategic areas as well as some important contract renewals.

As usual, I would like to provide some color regarding our quarter 3 performance on a regional basis, including this time, some insights regarding the industry transition now in progress and why we believe Amdocs is positioned to benefit from this in the long term.

Beginning with North America, performance was strong as we supported strategic initiatives of our customers. Regarding the broader business conditions in North America, wireless operators are being challenged to manage the imbalance between ongoing ARPU pressure and the high cost of 5G and spectrum investment. On the other hand, the region's Pay TV providers are investing to expand their offerings, improve customer experience and increase service agility.

In light of these market dynamics, we believe the North American wireless and Pay TV industry has entered the first stages of a multiyear transition that is also likely to play out globally in the form of 4 major avenues. These include, one, ongoing journey towards full-service integrated carrier; two, digital transformation to improve customer experience; three, network virtualization, or NFV, to reduce cost and improve service agility; and four, IT investments to realize opportunities in the enterprise B2B customer segments.

As a result of investment in recent years, we secured new wins in each of these 4 avenues during quarter 3, which further support our belief that Amdocs is best positioned with the right strategic engine to monetize this broad industry transition.

Let me take a moment to elaborate. The first avenue relates to the emergence of full-service integrated carriers, the best example of which is AT&T's acquisition of DIRECTV and its planned merger with Time Warner. We believe this strategy is accelerating based on recent reports of a dialogue between Comcast, Charter and Sprint and that Softbank and Sprint are now exploring various other options, which may result in additional consolidation activity to create another integrated carrier with full-service offering.

As we have said many times before, consolidation activities in progress or contemplated can present near-term uncertainties and we anticipate that this will translate to fluctuations in quarterly trends in North America in the foreseeable future. This includes AT&T, where we expect some slowdown in discretionary expenditures over the next few quarters in relation to its broader post-merger integration plans for Time Warner.

In the long term, we believe Amdocs is positioned to benefit as we are the only vendor with a platform specifically built to support the level of sophistication that full-service integrated carrier now require. This is also demonstrated by operators like Comcast, which, as we highlighted in the last quarter, have already begun modernization activities based around our next-generation CES 10 technologies.

The second avenue relates to the digital modernization, which is in full swing, as operators invest to improve the level of customer experience they provide. A good example of this is our previously announced partnership with Charter, where we are building an abstraction layer to provide a uniform and enhanced customer experience following Charter's acquisition of Time Warner Cable and Bright House Networks.

We also expanded our digital capabilities with the acquisition of Vindicia last September, and I'm happy to report continued progress in quarter 3. As the leader in the Software-as-a-Service-based subscription billing and payment management for online services, publishing and over-the-top (OTT) media and entertainment, Vindicia signed 12 new clients and 6 expansions during quarter 3, including Hearst magazines and HomeServe USA, helping them to fuel subscriber acquisition and retention and to increase customer lifetime value by resolving failed payment transactions.

The third avenue related to NFV, which is rapidly becoming an important area of focus among North America operators. Amdocs is well positioned to support this major industry shift, having codeveloped open ECOMP code, which is the base for ONAP, with AT&T and then subsequently selected as the systems integration and related services partner for NFV initiatives at Orange and Bell Canada. In this context, we are also delighted to be supporting Comcast beta test in its new SD-WAN, service-defined wide area network solution, for mid-market and enterprise customers that was announced in May. This is an important NFV use case deployed by Comcast and provides an encouraging sign that NFV is just as relevant for the world's largest MSOs as it is for wireless and wireline operators.

The fourth avenue of transition relates to the enterprise B2B customer segment, where we have accelerated our investments in the last few quarters in order to help service providers realize the growing opportunities in this segment. I am, therefore, pleased to report an exciting win with a new customer, DISH Network, which has selected Amdocs for a strategic project designed to redefine the experience for DISH Commercial Business customers, including what is known in the industry as multi-dwelling. As part of this transformation, Amdocs will deploy CES 10 as the next-generation platform that will enable DISH to more rapidly introduce business services, simplify their quick activation and further enhance the customer experience it provides.

To summarize North America, the region is leading a global industry transition that is likely to include another round of consolidation activity relating to the integrated carrier strategy. The long-term dynamics of this transition are positive for Amdocs, particularly in the Pay TV, where we enjoyed a very high win rate in recent quarters and where we still see additional modernization activity, which we are working diligently to convert to formal awards in the next few quarters. However, we remind you all that our outlook also contains many moving parts and unknowns, which we expect will continue to fluctuate in the quarterly trends in the foreseeable future.

Moving to Europe. Performance improved sequentially as we focused on project execution for some of the region's largest service providers. Additionally, we continue to pursue new opportunities to support emerging integrated carriers, such as Vodafone Netherlands and its cable joint venture with Ziggo, a subsidiary of Liberty Global.

Looking ahead, we remain well-positioned for long-term growth in Europe, although we remind you that near-term trends may fluctuate due to the timing of customer activities and the macroeconomics, political and foreign currency environment of the region.

Turning to the rest of the world, where we continue to progress a large number of projects towards production while securing new awards. For example, in Australia, we signed an important agreement with Telstra for the deployment of order orchestration and fulfillment solution that will help the Telstra team to transform the experience of their consumer and business customers.

Regarding the outlook of Rest of the World, we continue to see long-term opportunities for growth by supporting Amdocs customers with our wide range of product solutions and services. Similar to Europe though, we expect near-term trends to exhibit ongoing fluctuations due to the project orientation of our customers' activity in the Rest of the World market.

To summarize my regional overview and market insight, we believe our quarter 3 performance demonstrates that we are in the leading position to benefit from the long-term industry transition now underway. Moreover, we believe this leading position reflects our intentional focus on 5 key elements of success. First and foremost is our consistent ability to predict the future requirements of service providers often many quarters in advance and to form a solid strategy accordingly. Second is our high win rate, which we have sustained as a result of our targeted investment in the right strategic engines to support the needs of our customers. Third, we are proud of our high delivery rate and reputation for execution, which we have consistently sustained while progressing a record number of meaningful transformation projects toward production.

Fourth, we have consistently delivered stable non-GAAP operating margins near the high end of our long-term target range of 16.4% to 17.4% despite the higher mix of transformation project, which often come with profitability below the corporate average.

Fifth, we are continuing to invest in innovation and in new growth engines of the future while also being early adopters of new tools and methodologies in the information technology space, such as microservices and DevOps. We believe that these investments will help us maintain our strong market position and extend our product leadership.

To wrap up, we are well placed to sustain our growth over the long term as we continue to monetize the global industry transition already underway. Naturally, we are monitoring closely the many moving parts affecting our near-term outlook. But given the recent sales momentum and the visibility of our record 12-month backlog, we enter quarter 4 on track to deliver expected total return to shareholders in the mid- to high- single digits in fiscal 2017.

With that, I will turn the call over to Tamar.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd*

Thank you, Eli. Third fiscal quarter revenue of $967 million is slightly above the midpoint of our guidance range of $945 million to $985 million and includes a small positive impact from foreign currency fluctuations of approximately $3 million relative to the second fiscal quarter of 2017. Revenue performance was at the midpoint of our expectations after adjusting for foreign currency fluctuations.

As we expected, our Q3 revenue also included the sequential step-down of approximately $6 million in directory revenue. Our third fiscal quarter non-GAAP operating margin was 17.3%, an increase of 10 basis points year-over-year and in line with the higher end of our long-term target range of 16.4% to 17.4%.

Below the operating line, non-GAAP net interest and other income was $1.2 million in Q3, primarily reflecting foreign exchange movements. For forward-looking purposes, we continue to expect a non-GAAP net interest and other expense in the range of a few million dollars quarterly due to foreign currency fluctuation. Diluted GAAP -- sorry, diluted non-GAAP EPS was $1.02 in Q3, above the guidance range of $0.93 to $0.99. Diluted non-GAAP EPS benefited from a lower non-GAAP effective tax rate of 10.6% in the quarter, which was below our expected annual target range of 13% to 17%.

With respect to Q4, we expect our non-GAAP effective tax rate to be above the high end of our annual target range of 13% to 17%.

Diluted GAAP EPS was $0.81 for the third fiscal quarter, above our guidance range of $0.69 to $0.77, mainly due to a lower GAAP effective tax rate. Free cash flow was $134 million in Q3. This was comprised of cash flow from operations of approximately $162 million, less $28 million in net capital expenditures and others.

Regarding the full year outlook, we are tracking towards free cash flow generation of approximately $500 million in fiscal 2017. DSO of 84 days rose by 4 days quarter-over-quarter and was primarily attributable to invoicing large milestones with a North American customer towards the end of Q3.

Total unbilled receivables increased by $23 million as compared to the second fiscal quarter of 2017. Our total deferred revenue, both short and long term, decreased by $21 million sequentially in Q3. The net movement in unbilled receivables and total deferred revenue reflects our high level of transformation project activity and resulting timing differences between revenue recognition and the invoicing of customers during the third fiscal quarter.

Our cash balance at the end of the third fiscal quarter was approximately $963 million.

Our 12 months backlog, which includes anticipated revenue related to contracts, estimated revenue for managed services contracts, letters of intent, maintenance and estimated ongoing support activities, was $3.22 billion at the end of third fiscal quarter, up $10 million sequentially from the end of the prior quarter.

During the third fiscal quarter, we repurchased 90 million of our ordinary shares under our current authorization of $750 million. We had $347 million remaining under that authorization as of June 30.

Now turning to our outlook. We expect revenue to be within a range of $955 million to $995 million for the fourth fiscal quarter of 2017. Embedded within this guidance, we anticipate the negligible sequential impact from foreign currency fluctuations as compared to Q3.

For the full fiscal year 2017, we now expect revenue growth of roughly 3.5% to 4.5% on a constant currency basis. This compares to our previous guidance of 3.5% to 5.5% and reflects the industry fluctuation that Eli referred to in his earlier remarks.

On a reported basis, we also now expect revenue growth of 3.5% to 4.5% for the fiscal -- for the full fiscal year, which compares with our previous guidance of 3% to 5%. Incorporated within this outlook and consistent with our prior expectation, we anticipate revenue from our directory business in fiscal 2017 to place a drag of about 1% on the total company results.

As an added point of disclosure and consistent with the guidance we provided last quarter, we still expect directory revenue to level off on a sequential basis in Q4.

We continue to anticipate our non-GAAP operating margin for fiscal 2017 to be at the higher end of our long-term target range of 16.4% to 17.4%. As a reminder, operating margins may fluctuate within our long-term target range from quarter-to-quarter.

We continue to expect our non-GAAP effective tax rate to be within our target range of 13% to 17% for the full fiscal year 2017. We expect the fourth fiscal quarter diluted non-GAAP EPS to be in the range of $0.91 to $0.97.

Our fourth fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 147 million shares and the likelihood of a negative impact from foreign currency fluctuations in non-GAAP net interest and other expense.

We excluded the impact of incremental future share buyback activity during the fourth fiscal quarter as the level of activity will depend on market conditions.

For the full fiscal year, we expect to deliver diluted non-GAAP EPS growth of 5.5% to 7.5%. The midpoint of which is unchanged in comparison to our previously guided range of 4.5% to 8.5%. Our full year EPS outlook does factor in expected repurchase activity over the year. Consistent with our previous guidance, we still plan to return a majority of our free cash flow to shareholders through our ongoing share repurchases and dividend program in fiscal year 2017 while returning -- while retaining capacity for strategic M&A as opportunities arise.

With that, we can turn back to the operator to begin our question-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ashwin Shirvaikar of Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

My question was with regards to sort of the time of year where you guys are going through sort of strategic planning for the next fiscal year and so on and so forth. There is a very high level of industry consolidation-type activity and speculation, particularly in North America. I just want to ask, clarify, how does that affect your planning process as you think through it and your ability to talk about forward numbers?

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

So Ashwin, thank you for the question. Obviously, we don't want to get ahead of ourselves as we are preparing the operating plan for next year. But obviously, this high -- very high level of activity and especially in North America, I have never seen something like this in the last probably 10, 15 years. Everybody talks to everybody in all aspect. I mean, like CenturyLink and Level 1 (sic) [Level 3] on the infrastructure and wholesale and all the integrated carriers, and everybody participates there and the MSOs. NLT is going to IPO with the notion that they want to gain more capacity to make more acquisitions. So obviously, it's really in a turmoil. Long term, as we mentioned several times, we believe it's actually good for Amdocs. When it comes to short term, next 6 months -- next 12 months is still short term in this tectonic shift. We try our best to run different permutations. But it's very difficult this time because you have so many permutations, and it changes on a weekly basis that we have to make all kind of assumptions. And we will probably come up with some best guesstimate. It will be an educated guesstimate, of course, because we are in this industry, and we believe we understand it quite well. But we will have to prepare for some fluctuations in the next few quarters until we see some stabilization, especially in North America, to a lesser extent in the Rest of the World and in Europe. So the process will be bottom-up, going through any account, estimating what is the effect and then add to that all the possible permutation we can think of. And we think there are many permutations right now. And then we'll have to prepare for some unknowns because it will be -- this year will be very difficult. On the other hand, I think that we rightfully accelerated the activity with MSOs, and we predicted properly in the last Analyst Day, which was only -- looks like 6 years ago. It was only December of last year. We said we think it's beginning. Well, now we know it's in the midst of it. We are having very, very high win rate of all the deals that are being awarded in North America in different permutations, some of them we already announced, some of them we are still working on. So in a way, we have a hedging strategy here that maybe the wireless carriers are still dealing with some of -- price war and investment in 5G and so on. Although they would have to invest as well like T-Mobile does and get good results. They invest with us. But we have some level -- high-level hedging between the Pay TV and MSOs and the integrated carriers on one hand versus the wireless providers on the other hand. That probably will help us come up with something that will iron out a little bit of this rocky period because of this level of transformation and activity.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

I wanted to talk a little bit about the positive with regards to digital transformation, Pay TV , NFV-- you announced, I think, DISH win, and is that the first time you have...

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

Ever. First time ever. It's hard for Amdocs to get new logos. We're so entrenched in this industry. So we are especially proud. And it's a strategic and sizable project, too. It's not like a nuance project.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Right, right. So the question I wanted to ask was in regards to the cumulative opportunity as you build up NFV portfolio, as you build up incremental share. Historically, the opportunity has always been there. It's just a matter of trying to figure out the pace at which it comes to you. Are you finding the pace at which it comes to you is increasing?

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

It's hard to tell. I think we are still in the midst of this turmoil that I just described. In general, I would say the following: in terms of -- depends on each engine. On the MSO transformation, no doubt that the pace is -- I think we won in the last 3 quarters more than anyone, including us, won in the last 3 or 4 years, okay? So the pace there is, by far, higher. Obviously, the results, the recognition, all of that will come only later in '18 and '19 and so on and so forth. But the pace of awards in the MSO transformation is no doubt significantly higher than anything we have seen in the past. When it comes to NFV, it's very new. It's in its infancy. So -- but we win where others not so much. So again, we cannot get 100% win rate, especially in such a new topic. But the fact that we are already seeing some projects, as we just shared with you, in Comcast, MSO, it's not exactly the places where we thought a year ago to find new business on NFV. So this is encouraging, of course. On the other hand, the industry is still in the early adopter mode. It's like the AT&T pushed the limit, Orange, Comcast, a few others. But most of the others are still waiting, I think, wrongfully so because I think we are proving in production use cases that can provide the benefits of NFV right now. Not huge projects, but it's the beginning. So this kind of on the runway is starting, taking off, relatively in the beginning. The business to business is a sweet spot for all customers. This new win with DISH is around the commercial B2B customers. We have projects in England with Vodafone. We have others in other places of the world. I think that's also in the beginning of the cycle. And I think it will -- can serve us in the long term. And the integrated carriers, go back to the dialogue we had on the M&As and all that. This is really, really wild. But as I make a comment, I truly believe we are the only vendor that can deal with it. The complexity is double and quadruple and the size and the volume and everything. So -- and the digital transformation is just the bread and butter for us. I mean, we keep on investing in R&D. We keep on investing maybe in M&As in the future to accelerate some of that, but that's kind of the heart of what we do. So that's kind of the normal pace. It was high before. It's high now. I think it will be relatively high in demand in the near future, too. So that's kind of a long answer to your very good question, actually.

Operator

Our next question comes from Jackson Ader of JPMorgan.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

First one from me. Eli, you mentioned that the slowdown potentially at AT&T spending over the next 3 quarters or so as they start to wrap in Time Warner. So what could potentially elongate that 3-quarter time frame? And what could shorten it? What could you potentially see within AT&T to move that around?

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

So Jackson, first of all, we didn't say 3 quarters. We said next few quarters. We don't really have a very good estimate. If we judge by history not only in AT&T, but specifically also in AT&T, we see these large companies like going into some kind of a saving mode before they go into major acquisition. We saw it with the DIRECTV a few years ago. We saw it with the non-merger of T-Mobile. So we think that a lot of it has to do with the broader context of the Time Warner acquisition. But it affects the entire organization because if you're going to saving mode, you slow down some of the discretionary expenses. I don't think it's so out of character for that. In terms of the -- what can accelerate it or prolong it, look, part of the unknown right now is that -- you probably read the same news that we are reading. We are a little bit closer than you probably to the facts. But they -- AT&T announced ahead of the official approval of the deal a major change in leadership. So I assume that this leaders will be in their position and up and running quickly. But if they decide to take another quarter to learn the new job and kick the tires first, it may -- it easily can prolong everything by a quarter or so. What can shorten it? I think competitive landscape, if someone else would create a similar move like AT&T, delivering in mobility plus video, that was the logic behind the acquisition of DIRECTV. And if Comcast does something on this respect or Charter or Sprint or any one of the other guys, it will create dynamics that probably will signal to AT&T that if they want to maintain the leading position, they will have to act faster. So I think that this is kind of the -- again, probably the other parameters. But if I need to give you like a short answer to your question, that would be the situation. So I think that -- and again, we may see some effect of it. We may not. But I'm just giving you the best color we can as we see it.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

Okay, great. That's helpful. And then, Tamar, just a quick one for you. The shift in taxes, what was the -- just quickly, what was the reason behind that?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd*

As always, we've had some different moving parts. But if I need to single out one that contributed more than others, that would be an elapsed statute of limitation in certain jurisdictions that enabled us to release some tax uncertainty reserves. Other than that, everything is kind of the normal fluctuations we've seen in taxes from quarter-to-quarter. And I think the most important point here to make is that on an annual basis, we are keeping the 13% to 17% range we guided for in the beginning of the year.

Operator

Our next question comes from Shaul Eyal of Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Eli, I know you had some bits and pieces with respect to your prepared remarks, specifically on the NFV opportunity. Can you talk to us about the interest or probably the pipeline you are seeing, having in this market, clearly understanding this is early innings but one that could quickly accelerate as we have seen since you've introduced ECOMP as an example about a year ago?

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

So look, the pipeline is global. That is to say we have serious dialogue with the European carriers, with Asian ones, with the Latin Americans and, of course, North America. I mean, like everyone in North America is interested in that. And I think that a year ago, maybe even 9 months ago, people will still have some feasibility questions and whether it's possible, and that we moved this hurdle. And now we're talking about use cases, what can they implement, how can we implement in what we call hybrid environment, like the project we announced in Comcast. And by the way, Comcast announced that they are part of ONAP now, which is really helpful for us because it's again an indication that we are -- we made the bet on the right direction. But specifically, I want to mention that SD-WAN, service-defined wide area network, is the most profound net service for enterprises. This call right now with 30, 40 people are done on a VPN, on a virtual private network, which acts like private, but it's actually part of the public network. SD-WAN is the next-generation software-defined VPN. So it's fundamental as this, we are talking about the most important services for enterprises. So the fact that we can do that in real life, on real customer and in a hybrid environment, that is to say that some of the calls are being terminated on physical, all the network and some of them are pure software network, it's quite remarkable. So what we see today is more use cases. So different people can choose what is -- fits their liking. So it's global. It's only with top carriers, okay? So the Orange of the world, Bell Canada of the world, AT&T, Comcast, these are names. You should not expect Timbuktu Telecom to be on the NFV pipeline. But it's healthy. Now we start seeing services in the pipeline, which means that it's not only the core technology. We're talking about the implementations. It's really complex. And the fact that we have one with the best reservoir of engineering and engineers and know-how and so on and so forth, and we're accumulating more and more knowledge as we have more projects. It's like feeding itself. So that's kind of the color I can give you about it. And the fact that it's early innings, as we said, it's early innings, but I think it's going to be an exciting game.

Operator

(Operator Instructions) Our next question comes from Tal Liani of Bank of America.

Michael Feldman - *BofA Merrill Lynch, Research Division - Research Analyst*

This is Mike Feldman on for Tal. So a question on -- I have 2. I have one on AT&T, just around the potential softness you see in the pipeline around discretionary spending. Do you expect the magnitude of this to be similar to what we saw when they were combining with DIRECTV, where it in part pulled down North American growth by mid-single digits to low double digits? Or are there -- is there something different this time around that potentially offset that or maybe soften any slowdown there? Then I do have a follow-up on something else.

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

So Mike, on the first question, literally, we don't really know. But if you ask me from what we see on the ground, on the working level so on and so forth, probably in similar order of magnitude. We're not talking about the meltdown, like the AT&T will pull the plugs, do nothing for the next 2 or 3 quarters and then will come back. We don't think this is the case. But it's really hard to know. And when it compounded with the fact that there is a lot of leadership changes -- different people actually may have different opinions on how they need to run the job. So it's a little bit tricky timing. Probably in a month or 2 from now, we'll know much better. Just because the trend of the transformation and the preparation for the big M&A,

we are seeing probably several weeks already, and we understand the dynamics of it because it's typical and we saw it before. The fact that it's combined and compounded with a leadership change may affect it. But I don't really -- we're not panicking from this. It may affect short-term expenses but -- and even our numbers, but I don't think it's something that really put brakes on AT&T in discretionary. We have so many activities with them. So some of them may slow down, some of them may not.

Michael Feldman - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay, fair enough. And then one on the deal you announced with DISH. Can you just discuss maybe the dynamics around that. Was that a competitive displacement in any way? And then who did you compete with? And ultimately, why is your win rates so high currently in Pay TV? What is contributing to that?

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

Yes. Look, obviously, it was very competitive, okay? There are not that many transformation in the industry, definitely not in North America, and everybody and his wife would show up for these bids. Even the shortlist was a very competitive bid. Look, there are some incumbent players in DISH. You know them. And obviously, a win like this is taking away from some of their position. There are some other people that try to get into DISH, as we want the relationship. Other people want to do the same thing. The reason why I believe that eventually -- well, I can tell you what is not the reason. The reason is not because we were cheaper or just promising the moon. We are very serious about what we can do and what it costs us to do and so on and so forth. And usually, we do not come up as the most -- the cheapest solution. So I think that, in reality, the combination of the quality of the product and the ability to execute, the combination thereof is really the reason why we win DISH and why we win so many other deals in the industry. Look, I think that there's nothing in the industry -- we just got maybe lucky, maybe smart. So the journey of CES 8 to 9 to 10 in the last 3 or 4 years, this CES is second to none. It's well engineered, best technologies. And then you compound the ability to execute -- you need to realize, I'm not saying it in any -- I'm not necessarily enjoying it. But the reality that all of our competitors one by one, and sometimes more than once, marching safely into the hall of shame. And they have less and less project to show for. So even in -- sometimes they win, they cannot execute. So when it -- so the execution, the delivery capability, the execution is as critical as the technology itself. And when we can provide the best technology with a track record and we understand where the industry is going, I think that it's -- eventually, that's really the reason why we win in recent years in such a high win rate and definitely in the MSOs in the last 9, 12 months. And I think this is also the reason that we won in DISH. And it's a very important project. This is a full-spec CES 10. We are talking about commercial business customers, which are very important. These are the lucrative customers. And obviously, this could be the base for everything else because CES 10 can do consumer, can do business, can do cable, can do cable and wireless, can do any combination thereof. I mean, this is the capability. So as Comcast invested in that probably for the long term and not only for specific needs of the next 2 quarters, I believe that others are investing in this type of infrastructure for the long term. Once they have such an infrastructure, you just have the option to load it with more and more traffic and more and more options and more and more capabilities, and that's the beauty of this platform.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd*

Just to add to that. We just talked on the prepared remarks about Vodafone Netherlands, for example, creating a joint venture with Ziggo, which is a cable asset in Netherlands owned by LGI. And the fact that they deploy the Amdocs before that joint venture when they were wireless only enables them now to go through this in a much smoother way and create the synergies much faster as they go and approach this multi-play strategy. And we've seen many of our customers, whether they're coming from the wireless industry or coming from the Pay TV industry, seeing that as a major advantage that Amdocs can bring to the table, whether they are already in the shift to being a multi-play or just wanted strategic optionality. People do not invest in new systems and new stacks every 2 years. They do it usually for the long term. So they want to know that once they do it, they do have that strategic optionality available already.

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

And then Telefonica Argentina is another example and SingTel and their operation in Singapore and in Optus. I mean, like when you take all of these examples of recent wins in recent year or 2, it just repeats itself. It's just the same thing. And I believe that what we'll have in North America as well with MSOs, regardless if they are going to do it in the near future or, as Tamar said, they want optionality -- the optionality is a very, very important thing for them. And now they talk about it openly, whether they will do it through an MVNO or through WiFi or through owning the network or whatever, this optionality to have full service is very important for the future. And CES 10 and the platform that we produce comes ready with it. So we -- again, we bet in the right direction. But we did that 2.5, 3 years ago, and we invested hundreds of millions of dollars to create it. So even if some of our competitors will listen to this call and understand it, I don't think they can respond fast at all.

Operator

Our next question comes from Will Power of R.W. Baird.

Charles Erlikh - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

This is actually Charlie Erlikh on for Will. On geographic trends, it looks like North America continues to do well. Could you talk a little bit more about what's driving that growth? Is it mainly the strength in the cable sector? And likewise, what would you need to see in Europe that could drive that region back to growth?

Eli Gelman - *Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd*

So Charlie, first of all, North America, yes, part of it is cable, Pay TV, MSOs. And now we don't know how to call them because how would you call DIRECTV under the AT&T? It's an integrated carrier. But yes -- but the video, Pay TV drives it. T-Mobile is a growth engine for us because the Uncarrier. AT&T, we have so many domains in AT&T. That's also related to the Comcast projects, which are NFV. It's not exactly -- it's a MSO customer, but the project could be an NFV. So I can give you many examples like this. In terms of Europe, I think we need more customers like Vodafone. Vodafone is an early adopter in Europe. The rest of the big carriers in Europe right now is somewhat in a transition mode. You read the newspapers and the transition of Telecom Italia, for example. Just they have a lot of issues with leadership and proxy fights and stuff like this. But once they stabilize, they will have to do something. Especially, we won Vodafone Italy, and we announced it recently, it generates dynamics in the Italian market. And it's the first time we are in Italy. It's like an emerging market for us because it's so new. I think the same would go with Germany. O2 Germany announced already that they want to go to an accelerated mode of activity. Vodafone Germany and Deutsche Telekom, D1 would have to do something about it. England has always been a very active market, the Netherlands as well. So I think that it's a combination of things. But I think the integrated carrier, first of all, could be an accelerator for Europe. Digital transformation also could be, and these are most of the country that are techie in nature, not all of them but some of them. And of course, we can expand into other businesses in Europe or other countries in Europe that we don't have business today. And they are quite a few of them. So we still remain long-term bullish about Europe, and now our capabilities are definitely the things they need.

Operator

I'm showing no further questions. I would now like to turn the call back to Matthew Smith for any further remarks.

Matthew E. Smith - *Amdocs Limited - Secretary*

Thanks, Ashley, and thank you very much for joining our call this evening and for your continued interest in Amdocs. We look forward to hearing from you in the coming days. And if you do have any additional questions, please give us a call at the investor relations group. With that, have a great evening, and we'll conclude the call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.