AMDOCS Q3 2021 CONFERENCE CALL SCRIPT
FINAL

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5:00 pm

Matthew Smith, Head of Investor Relations

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, and for the second quarter of fiscal 2021 on May 24, 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, Chief Executive Officer

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

I am pleased with our Q3 performance which I believe reflects the positive impact of the strategic initiatives we have executed this year to accelerate Amdocs' long-term growth.

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 was above the guidance midpoint, up 9.4% from a year ago on a pro forma constant currency basis, and consistent with our expectations for a stronger second half
- Profitability remained slightly above the high-end of our target range, and
- We generated robust free cash flow of which we returned the majority to shareholders by way of quarterly share repurchases and our dividend program.

The strong sales momentum we have seen in recent quarters also continued in Q3. On a pro forma basis, 12-month backlog was our highest-ever and up 10.8% from a year ago.

Additionally, our growth engines are contributing to new business awards, including digital and 5G systems modernization, cloud migration, and next-generation OSS platforms for networks.

This breadth of demand is a positive sign that our growth strategy is well aligned with the ever-evolving needs of our customers and our ongoing commitment to innovation.

Over the past several quarters we have increased our R&D investments as a percent of revenue and extended our lead in what we define as the 5G value plane. The 5G value plane integrates key capabilities such as charging, policy, and monetization, as well as multi-access edge computing, and software-defined networks, to support the upcoming rollout of 5G standalone networks that will allow service providers to drive premium 5G service offerings and innovative business models.

Overall, Amdocs is executing well for Q3 and the fiscal year to date, the credit for which belongs to our thousands of employees worldwide. Many of our people were subject to the recent escalation of the global pandemic in certain operating regions yet as a company we have maintained consistent execution and delivered great value to our customers. Globally, we are encouraged to see some positive signs of improvement as vaccination programs are rolled out, and I am happy to welcome back different teams to the offices in those parts of the world where we are able to gradually reopen. That said, we continue to monitor the global pandemic closely, and the health and well-being of our employees remains our priority.
I am proud of Amdocs' people everywhere and I thank them all once again for their ongoing dedication and commitment to Amdocs.

Now, let me provide some color with respect to our regional performance in Q3.

Beginning with North America, we delivered another record quarter on a pro forma revenue basis, reflecting healthy activity levels with many customers across the region.

- As we said last quarter, North American service providers are accelerating multi-year investment cycles focused around major industry trends including:
    - Digital transformation and systems modernization aligned with the 5G rollout with a focus on monetizing and delivering new services utilizing charging and policy platforms, and
    - The rollout of 5G mobile, fixed wireless and fiber networks to support fast and highly secure broadband connectivity which will be delivered on the cloud and provisioned on next-generation OSS platforms as we continue to see how connectivity has become a critical backbone of our society in our new hybrid work and home settings.
- Further to this we see the future being powered by a partner economy which leverages technologies such as Multi-access Edge Computing and Private networks while being able to bring together a rich partner ecosystem that expands Monetization opportunities.
- We believe that our next-generation offerings are at the heart of many of our North American customers' investment plans, and as a valued partner we believe we are well positioned to expand our scope of activities and deliver even more value to our customers.
    - This quarter, AT&T selected Amdocs' Quality Engineering Services under a multi-year services deal to provide agile, scalable and

DEVOP's based quality assurance. QES integrates into every step of the development process for a faster time to market with new services and builds on our existing activities supporting the modernization of AT&T's consumer mobility domain.

- Additionally, we are progressing well at T-Mobile where our zero-touch service operations were recently selected for a program to implement next-generation automation leveraging machine learning and AI tools.

- Across our broader North American customer base, activity levels are also healthy.
  - At Verizon, we are implementing CatalogONE, in addition to which we are now deploying our cloud-native, next-generation OSS 5G platform for service and network automation.
  - At Altice, Comcast, Charter, and Dish, we are executing on the previously announced programs while continuing to demonstrate the long-term value we can bring to these customers as they crystalize their future investment plans.
  - Additionally, in the media segment, Adobe recently signed a multi-year agreement with Amdocs to support customer retention efforts by implementing Vindicia's cloud-based subscription billing solution, part of the Amdocs MarketONE platform.

Tying it all together, Amdocs is at the heart of North America's initiatives to advance 5G and the cloud, and we look forward to further supporting our customers in what we believe is a multi-year investment cycle.

Moving to Europe, revenue grew sequentially as our customer's progressed digital modernization investments to support improved customer experience, better operating efficiency and multiplay convergence strategies.

- Expanding our relationships with multi-national groups has long been a part of Amdocs' international growth strategy. Europe's "3" Group is a good example of how we started a customer relationship by delivering value through a modernization project at the Irish affiliate, expanded to "3" UK in the business-to-business domain, and now in Q3 expanded to the consumer sector with a new multi-year managed transformation award to provide "3" UK's subscribers with next-generation digital experiences and 5G services.

- This quarter, we also strengthened our long-standing relationship at Vodafone Group where we were selected to provide inventory and next generation OSS capabilities to support Vodafone's mobile, fixed and cable offerings in Germany, Romania, and Czech Republic. Additionally, we expanded our agreement with Vodafone Spain to modernize its CRM systems ready for the 5G era.

- Among other customer highlights this quarter:

    - BT Group implemented Amdocs' BriteBill platform to deliver easy-to-understand billing communications to its tens of millions of customers across the United Kingdom, and

    - Amdocs Media's Vubiquity extended its Multi-Year content-as-a-service engagement with German-language IPTV provider, Ocilion.

Turning to the Rest of World, revenue improved sequentially for the fourth straight quarter.

- In Latin America, our activities included the ramp-up of the previously announced digital modernization programs at Claro Brazil, Chile, and Puerto Rico.

- Additionally, SETAR, Aruba's national telecom provider, recently signed a 5-year extension with Amdocs to continue supporting their post-paid billing efforts for business and consumer offerings through 2026.

- In Southeast Asia, we have been awarded a multi-year cloud managed transformation agreement with True Corporation in Thailand to upgrade their monetization platform to the new cloud-native and 5G- ready Amdocs CES21 suite, enabling True to launch, manage and monetize innovative new 5G services.

Before wrapping up, let me highlight some recent developments in our strategy to accelerate the communications industry's journey to the cloud.

- First, the market-leading capabilities of our next-generation cloud-native CES portfolio were recently recognized by AWS which named Amdocs winner of the Best Telco Solution award. We are honored by this recognition which we see as another example of the strong partnerships we are forging with the leading cloud providers in the industry.

    - We continue to work very closely with Microsoft where we recently expanded our strategic collaboration to widen the availability of our portfolio on Azure.

- Second, I can report that the post-merger business integration of Sourced Group is progressing well. As a leading global technology consultancy specializing in large-scale cloud transformations for sophisticated, high-end enterprises, the expertise we have acquired at Sourced is already translating to new business opportunities in cloud operations and services.

To wrap-up, I am happy with our performance for Q3 and the fiscal year to date. We expect year-over-year revenue growth to accelerate on a pro forma constant currency basis in fiscal 2021, supported by positive contributions from all three regions in which we operate.

Our confidence in the outlook is supported by:

- The visibility of our 12-month backlog,
- A growing pipeline of opportunities, and
- Our market-leading offerings, which are well-aligned with our customer's needs for digital modernization, 5G, cloud migration, and next-generation OSS platforms.

Overall, we are raising our fiscal 2021 outlook for non-GAAP earnings per share growth on a pro forma basis by 80 basis points at the midpoint of the range, and we believe we are firmly on-track to deliver expected double-digit total shareholder returns for the full year, including our dividend yield.

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

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

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 quarter fiscal 2021 but is excluded for the second and third quarters 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 periods.

Third fiscal quarter revenue of $1.07 billion was above the midpoint of our guidance range of $1.04 billion to $1.08 billion. Revenue includes a positive impact from foreign currency fluctuations of approximately $3 million relative to the second fiscal quarter of 2021 and a positive impact of $5 million relative to guidance.

On a pro forma basis, revenue grew by 9.4% year-over-year in constant currency in the third fiscal quarter.

Our third quarter revenue grew by 3.9% year-over-year as reported and was up 1.9% on constant currency.

Our third fiscal quarter non-GAAP operating margin of 17.6% remained slightly above the high-end of our long-term target range of 16.5% to 17.5% and was up 50 basis points from a year ago. Non-GAAP operating margin was unchanged on a sequential basis. The improvement in non-GAAP operating margin from a year ago reflects the divestiture of OpenMarket and operational excellence initiatives, 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 $1.2 million in Q3, the mix of which includes interest expense related to our short-term borrowings and 10-year bond, offset by the favorable impact of foreign currency fluctuations in the quarter. 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 $1.35 in Q3, above our guidance range of $1.14 to $1.20, primarily due to a lower than anticipated non-GAAP effective tax rate of 7% in the third fiscal quarter which is below our annual target range of 13% to 17%. Our Q3 tax rate reflected the favorable impact of certain tax optimization strategies in some of our operating jurisdictions which we were able to complete in Q3 rather than the fourth quarter as originally planned. Therefore, our expectations for the full year fiscal 2021 non-GAAP effective tax rate remain unchanged, but specifically in Q4 tax rate will be higher than this annual range.

Diluted GAAP EPS was $1.14 for the third fiscal quarter, above our guidance range of $0.91 to $0.99, also primarily due to a lower than expected effective tax rate.

Normalized free cash flow was $179 million in the third fiscal quarter, up approximately $10 million as compared to $169 million a year ago.

On a reported basis, free cash flow was $140 million in Q3. This was comprised of cash flow from operations of approximately $190 million, less $50 million in net capital expenditures and other.

Please refer to the reconciliation table provided in our Q3 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 6 days year-over-year and was flat as compared to the prior fiscal quarter. We remind you that DSO's may fluctuate from quarter to quarter.

As of June 30, total deferred revenue exceeded total unbilled receivables by $148 million. This reflects a decrease in total deferred revenue of $17 million and an increase in total unbilled receivables of $2 million as compared to the second 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 $3.59 billion at the end of the third fiscal quarter, up approximately $50 million from the end of the prior quarter. On a pro forma basis, our 12-month backlog was a record-high for the company and up roughly 10.8% year-over-year. We believe our quarterly 12-month backlog continues to serve as a good leading indicator of our business, having consistently averaged around 80% of forward-looking 12-month revenue over the past many years. For your forward modelling purposes, however, we remind you that revenue for all quarters in fiscal 2020 and for the first fiscal quarter 2021 still included OpenMarket, the effect of which should be taken into consideration in year-over-year revenue growth comparisons for the fourth fiscal quarter 2021 and the first fiscal quarter of 2022.

I am pleased to report another record quarter from managed services arrangements which comprised roughly 61% of total revenue. We continue to see the value our managed transformation model brings to our customers with additional new deal awards this quarter, such as '3' UK and True in Thailand. Our managed transformation model combines the deployment of large-scale digital transformation projects with the operational benefits of our managed services model. We also see high renewal rates and expansion with existing managed services 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 third fiscal quarter was approximately $1.05 billion, including aggregate borrowings of roughly $650 million.

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. 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 fourth fiscal quarter of 2021 to be within a range of $1.065 billion to $1.105 billion. Our Q4 revenue guidance anticipates a negative sequential impact of approximately $1 million from foreign currency fluctuations.

Regarding the full fiscal year 2021, we are raising the midpoint of our outlook for revenue growth on a pro forma basis by 30 basis points to a new range of approximately 6.3% to 7.3% year-over-year constant currency, as compared to our previous range of 5.0% to 8.0% year-over-year.

On a reported basis, we also expect a 30-basis point improvement relative to our previously guided range. We now expect full year revenue growth in the range of 2.3% to 3.3% year-over-year as compared with our previous range of 1.0% to 4.0% 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, consistent with our previous expectation.

As previously anticipated, our outlook expects an acceleration in the rate of year-over-year revenue growth on a pro forma basis in the fiscal second half and 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 revenue 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 fourth fiscal quarter diluted non-GAAP EPS to be in the range of $1.13 to $1.19.

Our fourth 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 fourth fiscal quarter, as the level of activity will depend on market conditions.

Regarding the full year fiscal 2021, we are raising the midpoint of our outlook for non-GAAP diluted earnings per share growth by 80 basis points to a new range of 9.1% to 10.5% on a pro forma basis, as compared to 7.5% to 10.5% previously.

On a reported basis, we expect to deliver full year diluted non-GAAP EPS growth of 7.6% to 9.0% year-over-year as compared to 6.0% to 9.0% year-over-year previously, which also equates to an increase of 80 basis at the midpoint. 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 continue to expect normalized free cash flow for fiscal year 2021 of approximately $820 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 increased our outlook for reported free cash flow for fiscal year 2021 to approximately $650 million. The improvement of $30 million relative to our prior view is related to a shift to next year of payments related to our investment in the new campus in Israel. Our reported free cash flow outlook therefore anticipates expenditures of roughly $110 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.

During the third fiscal quarter, we repurchased $90 million of our ordinary shares as part of our share repurchase program.

Regarding our capital allocations plans, we remain on-track to return a majority of our normalized free cash flow to shareholders in the form of our quarterly dividend and share repurchase programs in fiscal 2021

As of June 30, we had roughly $1.1 billion of authorized capacity for share repurchases remaining. This amount includes $1 billion authorized under the new share repurchase plan which was approved by our Board in the prior quarter and which we will execute at the company’s discretion going forward.

Overall, we remain on-track for pro forma revenue growth acceleration, improved profitability and strong free cash flow for the full year fiscal 2021, the combination of which firmly positions us to deliver double-digit total shareholders returns of roughly 12%, including the midpoint of our new pro forma non-GAAP earnings per share growth guidance, plus our dividend yield.

Before we go to Q&A, I am pleased to say that we have just published our new Corporate Social Responsibility Report which covers the year 2020, up until June 2021. The report details how, despite the pandemic, we have managed not just to maintain, but to grow our extensive CSR initiatives worldwide, many of which had to be quickly reinvented as we adapted to the restrictions around us.

Examples of essential pandemic-related initiatives to support communities in which we live and work include donating medical equipment, computers for remote learning, and food for the needy, as well as establishing a call center to assist thousands of isolated senior citizens to connect with their loved ones online.

The report also highlights our increased focus on diversity and inclusion, as well as our successful sustainability efforts with leadership rankings from EcoVadis and CDP, The Carbon Disclosure Project, as well as being included for the second consecutive year in the S&P Dow Jones Sustainability Index (DJSI) North America.

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

Matthew Smith:

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.