REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2023 Amdocs Ltd Earnings Call

EVENT DATE/TIME: JANUARY 31, 2023 / 10:00PM GMT

CORPORATE PARTICIPANTS

Joshua Sheffer *Amdocs Limited - President, CEO & Director*
Matthew E. Smith *Amdocs Limited - Secretary & Head of IR*
Tamar Rapaport-Dagim *Amdocs Limited - CFO & COO*

CONFERENCE CALL PARTICIPANTS

Ashwin Vassant Shirvaikar *Citigroup Inc., Research Division - MD & Lead Analyst*
Madeline Nicole Brooks *BofA Securities, Research Division - Research Analyst*
Timothy Kelly Horan *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*
William Verity Power *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Thank you for standing by, and welcome to Amdoc's First Quarter 2023 Earnings Conference Call. (Operator Instructions) As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Mr. Matthew Smith, Head of Investor Relations. Please go ahead, sir.

Matthew E. Smith ***Amdocs Limited - Secretary & Head of IR***

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

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.

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 first quarter of fiscal 2023, and will update you on the continued progress we've made executing against our strategic growth framework. Shuky will finish by commenting on our financial outlook for the full fiscal year 2023, after which Tamar will provide additional details on our first quarter financial performance and forward guidance.

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

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

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

Starting on Slide 6. I am pleased to report strong first quarter results, sincere thanks for which go to our incredible people around the world who every day work to support our customers' multiyear journey towards digital modernization, 5G monetization, cloud migration and network automation.

Q1 revenue was a record $1.19 billion, up 9.5% year-over-year in constant currency and above the midpoint of our guidance. 12 months backlog of $4.09 billion was also a record high, up approximately 7% from a year ago on continued sales momentum and we delivered a non-GAAP diluted earnings per share of $1.45 which was above the guidance range, primarily due to a better profitability on a higher revenue base and a lower-than-expected non-GAAP effective tax rate.

Overall, our financial year is off to a strong start, positioning Amdocs to deliver consistent and profitable growth in fiscal 2023 within a global macroeconomic backdrop that remains challenging and uncertain.

To provide context to our financial performance, let me review our quarterly operating achievements as shown on Slide 8. To begin, we continued sales momentum and further cultivate strong value-driven partnership with new and existing customers during Q1. Notably, we deepened our long-standing relationship with customers like AT&T, T-Mobile, Verizon, Comcast, DISH and Claro Brazil in the Americas. Vodafone and Three Group in Europe, Globe in the Philippines and a Tier 1 operator in Malaysia.

Additionally, we further diversified Amdocs' customer base by winning several new logos, including Colt Technology Services in the U.K. and Telefónica Móviles El Salvador in Latin America, where Amdocs online charging system will replace the existing vendor.

Amdocs Vubiquity has also continued to execute well on its strategy of servicing leading studios and direct-to-consumer platforms, winning several new projects and extensions over the past year, including Disney, Warner Brothers, Discovery, MGM and Paramount.

Turning to execution. Q1 was another great quarter, which included major project milestone deliveries at AT&T, T-Mobile, Verizon, Bell Canada, XL and many others. At Claro Brazil, we expanded our policy platform to allow for new use cases such as voice over LTE and 5G stand-alone. In addition to which I'm happy to share that nearly all the Brazilian postpaid customers Claro acquired from Oi have already been successfully migrated to our monetization platform.

I believe Amdocs' high rate of successful project execution is a direct outcome of our highly skilled workforce, unique global delivery model, methodologies, tools and automation and a regional site strategy, which is constantly refined as we optimize our global talented pool.

I'd also like to highlight the competency of our managed services business, which this quarter delivers flawless execution for customer over the peak retail volume periods of Black Friday and the holiday season.

In addition to sales and execution, we maintained a high level of R&D investment during Q1 and further extended our technology and product leadership. The most advanced version of the Amdocs Customer Experience Suite and services offering will be presented at the fast-approaching Mobile World Congress in Barcelona, where we are planning a significant presence and meetings with many customers and partners. We'll also be showcasing innovative solution and exciting use cases, including those resulting from our collaboration with service providers, enterprises and partners at our Dallas 5G Experience Lab.

To complement our growth pillars, Amdocs remain committed to disciplined M&A as and when opportunities arise. Amdocs is constantly evaluating a broad pipeline of exciting M&A opportunities and while the previously announced acquisition of MYCOM OSI did not move forward as planned, we continue to look for suitable deals that can accelerate our growth strategies.

Before moving on, I want to proudly recognize our recent achievement in the ESG domain as shown on Slide 9. As previously announced, Amdocs included in the S&P Dow Jones Sustainability Index for North America for the fourth consecutive year. Additionally, we are today pleased to announce that Amdocs has been included as a member of the 2022 Bloomberg Gender-Equality Index, which we believe is a testament to Amdocs' progress towards achieving diverse diversity goals to which we are committed.

Our commitment to sustainability and corporate responsibility has also earned several other recognitions this quarter.

Amdocs India was recognized as one of the most preferred workplaces in IT and information technology enabled services for 2022-2023. We improved our environment disclosure rating at CDP from B to A-, and our new state-of-the-art campus in Israel has a LEED Gold certified for its sustainable design and operation.

Prestigious ESG recognitions such as these reflect Amdocs' desire to make positive impact on the environment and the communities in which we operate, and I'd like to thank our global base of talented and committed employees for their essential part in making achievements like these possible.

Now let me provide a progress update in respect to our multi-pillar growth strategy, the aim of which is to bring market-leading innovation to help service providers to accelerate migration to the cloud, create seamless digital experiences by transforming IT operations, launch and monetize new 5G services and deliver dynamic connected experience with real-time automated network.

Starting on Slide 10. We see a growing number of service providers embarking on a multiyear cloud migration journeys that Amdocs is supporting with our end-to-end suite of cloud platform and services. I'm happy to report that T-Mobile selected Amdocs' cloud-hosted intelligent networking suite, a next-generation platform to enable provisioning of advanced 5G services and Vodafone Ireland recently chose Amdocs to modernize and migrate its end of data and application workloads from on-premise to the cloud to enable greater flexibility and capacity and improved customer experience and rapid adoption of latest 5G innovations. Additionally, a leading Tier 1 operator in Southeast Asia has selected Amdocs to smartly migrate its existing Amdocs BSS suite to a modern cloud transformation at 2 large regional affiliates, thereby enabling improved security and operability while defining the long-term journey towards the full cloud-native environment.

Moving to digital transformation on Slide 11. More service providers are recognizing the power of data to drive personalized customer experiences. Amdocs is working with Comcast on several new projects, including upgrading the new Amdocs data hub for mobile and B2B on the cloud. Under a multi-year managed services engagement Three UK selected Amdocs to migrate to a modern cloud-based data architecture to service customers timely recommendation based on data-driven decision-making.

Finally, Amdocs is providing AI-driven data insights to Globe Telecom, a leading operator in the Philippines with nearly 88 million mobile subscribers. Implemented on the public cloud and delivered under a multiyear managed services agreement, this service will empower Globe to the right business growth, time-to-market agility and operational efficiencies.

Turning to Slide 12 and 5G monetization. Fixed wireless access is rapidly emerging as one of 5G's first meaningful success stories, and Amdocs is already playing an important part. For instance, a leading Tier 1 operator in North America recently selected Amdocs' home operating system, which utilize AI technology to simplify Internet and device management, automate customer support and introduce enhanced security features for fixed wireless broadband customers. More broadly, Amdocs is helping service providers to modernize and build agility in the 5G area -- era by enabling the rapid launch of monetization of new 5G products.

Amdocs was recently commissioned by CTM, a leading telecom operator in Macau, to modify its online charging and billing infrastructure to support 5G standards. We recently extended our managed services relationship with Vodafone Romania, which selected Amdocs to modernize its revenue management system with a modular platform, enabling it to launch and monetize new products and services at speed. Additionally, Globe Telecom recently selected Amdocs' next-generation charging platform to enable the monetization of new stand-alone 5G services to consumers and businesses while reducing operations costs. And KT Corporation in South Korea signed a 3-year extension for ongoing support services and fast-track development for Amdocs' Turbo charging and catalog platforms which expand Amdocs and KT's cooperation until 2025.

Turning to Network Automation on Slide 13. Global service providers are considering investment in cloud-native, fully digitalized processes to better manage massive scale and complexity across services and cost service ordering, activation and provisioning for consumer and enterprise customers. Amdocs recently completed an operational support system modernization project for a leading Australian operator, providing it with fully cloud-native services designing orchestration capabilities and running on a public cloud infrastructure to enable increased performance, business agility and cost savings.

Along similar lines in the U.K. Colt Technology Services has signed a letter of agreement for Amdocs to deliver the Amdocs Resource Manager. The solution will be cornerstone in Colt's continuous modernization journey focused on delivering on digital infrastructure services, which empower its customers and employees around the world.

We are also bringing value in respect to network deployment and optimization. Amdocs is providing system integration services for vRAN and Verizon to drive mass scale of automation and deployment efficiency as 5G rolls out nationwide. Additionally, Telefonica Germany has chosen Amdocs' cloud-native network optimization suite, enabling the operator to maximize network performance and accessibility and to benefit from greater flexibility, scalability and automation.

Rounding out my strategic review, let me quickly comment on an interesting project that we recently implemented for Bank Hapoalim. It's one of Israel's largest financial service institution. Bank Hapoalim is using Amdocs' leading catalog management software to rapidly create and deploy customer-centric offers, products and services such as digital lending, so vastly improved time-to-market agility.

Now moving to our fiscal year 2023 outlook as presented on Slide 14 and 15. To begin, let me remind you that Amdocs and our global customers are not immune to economic cycles, and we are continuing to closely monitor the current period of global macro uncertainty. Amdocs is well-situated at the heart of the multiyear 5G network automation, digital and cloud-driven investment cycle with our market-leading software and services and a stronger potential for successfully delivering mission-critical system transformation.

From our vantage point as a trusted partner, and key technology enabler, we continue to see an attractive pipeline of opportunity and a healthy level of customer engagement as we collaborate in respect to their next-generation software application and services requirements. In the current environment, Amdocs is also very well placed to help service providers improve customer experience, accelerate cost reduction and increase efficiency as demonstrated by the many customer activities highlighted today.

We are confident in our unique business model, which is more resilient due to the highly recurring revenue streams and strong business visibility resulting from our support of mission-critical system under multiyear engagements.

Wrapping everything together on Slide 15. We are reiterating our guidance for full year revenue growth of between 6% to 10% on a constant currency basis in fiscal 2023, with all 3 operating regions contributing positively over the full year.

On the bottom line, we are raising the midpoint of our outlook for non-GAAP diluted earnings per share growth by 100 basis points to a new range of roughly 9% to 13% in fiscal 2023. The outlook reflects our strong Q1 financial performance and our commitment to further improve profitability by accelerating automation, driving efficiency and tightly managing costs. Additionally, we are on track to achieve our free cash flow guidance of approximately $700 million in fiscal 2023, the majority of which we plan to return to shareholders.

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

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

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

Turning to our financial highlights on Slide 17. I'm happy to report solid first quarter financial results kicking off a strong start to fiscal year 2023. Record Q1 revenue of approximately $1.186 billion, at the higher end of our guidance range was up 9.5% year-over-year in constant currency. On a reported basis, revenue increased 7.3% and was above the midpoint of guidance even if we exclude the favorable foreign currency movement of roughly $9 million compared to our guidance assumptions.

On a regional basis, North America delivered another record quarter, and Europe accelerated as we continued to execute on behalf of our customers. Rest of the world declined during the first quarter, reflecting normal fluctuations in customer activity, but is on track for full year growth as new project awards are ramping up. Altogether, we expect all 3 operating regions to grow on a constant currency basis for the full year fiscal 2023 as we anticipated at the beginning of the year.

Moving down the income statement. Our non-GAAP operating margin was 17.7% in Q1, up 20 basis points from a year ago and up 10 basis points sequentially as we began to leverage the benefits of efficiency improvements, automation and other sophisticated tools while maintaining a high level of R&D investment.

On the bottom line, non-GAAP diluted EPS of $1.45 was above our guidance range, primarily due to improved profitability on a higher revenue base and from a lower-than-anticipated non-GAAP effective tax rate of 13.7% resulting from internal structural changes in certain jurisdictions in which we operate. Diluted GAAP EPS was $1.07 for the first fiscal quarter, which was toward the high end of our guidance range of $1 to $1.08. This was primarily due to a lower GAAP effective tax rate than anticipated in the quarterly guidance, partially offset by restructuring charges of $25 million related to the alignment of our workforce around our global site strategy as well as the optimization of our hybrid work model.

Moving to Slide 18. 12 months backlog was a record high of $4.09 billion, up 6.8% from a year ago and consistent with our reported growth at the midpoint of our revenue guidance range. On a sequential basis, our 12 months backlog was up by $120 million, reflecting continued sales momentum. Our 12 months backlog has traditionally served as a good leading indicator of our business, having consistently averaged around 80% of forward-looking 12 months revenue over the years.

Turning to Slide 19. First quarter Managed Services revenue of $700 million was up 6.1% from a year ago and accounted for about 59% of total revenue. In addition to the expanded Managed Services deals Shuky already mentioned, Three UK, Vodafone Romania and Globe Telecom this quarter, I'm happy to report that DISH and Amdocs signed a new Managed Services agreement which will offer an improved billing experience for DISH commercial TV customers. To remind you, our Managed Services engagements underpin the resiliency of our business with recurring revenue streams, near 100% renewal rates and expanded activities under multiyear engagements and may sometimes include modernization projects, which deepen our relationship even further.

Now turning to the balance sheet and cash flow highlights on Slide 20. DSO of 87 days increased by 13 days sequentially in Q1, while the net difference of deferred revenue and unbilled receivables declined by $39 million sequentially. We generated free cash flow of $50 million in Q1. This was comprised of cash flow from operations of approximately $83 million, less $34 million in net capital expenditures. Free cash flow and DSO were impacted by the timing of roughly $100 million in cash collections, which were due for the payments around the quarter and holiday period, but which were subsequently received in January. We are reiterating our full year free cash flow outlook of roughly $700 million, with free cash flow in the first half of fiscal 2023 tracking in line with our expectations, taking into consideration the normal seasonal timing of annual bonus payments in the second quarter.

Overall, we ended Q1 with a strong balance sheet and a healthy cash balance of approximately $0.7 billion, including aggregate borrowings of roughly $650 million. Moreover, we have ample liquidity to support our ongoing business needs while retaining the capacity to fund strategic growth.

Turning to capital allocation on Slide 21. We repurchased $100 million of our shares in the first quarter -- $100 million of our shares in the first quarter and paid cash dividends of $48 million. As I just mentioned, we remain on track to generate free cash flow of approximately $700 million for the full fiscal year, which equates to a healthy free cash flow yield of about 6.3% relative to Amdocs' current market capitalization. Our outlook assumes a conversion rate of roughly 100% relative to non-GAAP net income.

Regarding our capital allocation in fiscal year 2023, we expect to return the majority of our free cash flow to shareholders by way of our quarterly share repurchases and dividend payment program.

Now turning to our outlook on Slide 22. As Shuky indicated earlier, we are closely monitoring the prevailing level of macroeconomic business and operational certainty, which remains elevated in the current business environment. Thus the second quarter and full year fiscal 2023 financial guidance reflects what we consider to be the most likely outcomes based on the information we have today, but we cannot predict all possible scenarios.

We are on track to deliver revenue growth in line with the midpoint of our long-term guidance range of 6% to 10% year-over-year on a constant currency basis in fiscal 2023. Visibility to this outlook is supported by our solid Q1 performance, a record 12 months backlog and the strong pipeline we see ahead.

Our annual outlook includes second fiscal quarter revenue within a range of $1.2 billion to $1.24 billion. On a reported basis, we expect full year revenue growth within an improved range of 5% to 9% year-over-year as compared with 4% to 8% year-over-year previously. The new outlook anticipates an unfavorable foreign currency impact of approximately 1% year-over-year compared with an unfavorable impact of 2% year-over-year previously.

Moving down the income statement. We anticipate quarterly non-GAAP operating margins to fluctuate around the midpoint of our annual target range of 17.5% to 18.1%. Below the operating line, we anticipate that foreign currency fluctuations and cost of hedge will continue to impact our non-GAAP net interest and other expense lines in the range of a few million dollars on a quarterly basis. We expect that our non-GAAP effective tax rate will remain within an unchanged annual target range of 13% to 17% for the full fiscal year 2023.

Bringing everything together, we are raising our outlook for non-GAAP diluted earnings per share growth to a new range of 9% to 13% for the full year fiscal 2023 the midpoint of which represents an improvement of about 100 basis points compared with our prior guidance.

Overall, we are well on track to deliver double-digit total shareholders' return for the third year running in fiscal 2023, including our outlook for non-GAAP earnings per share growth plus a dividend yield of about 2%.

With that, back to you, Shuky.

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

Thanks, Tamar.

As you can probably tell from our remarks today, we are very pleased with the strong start we have made to fiscal 2023, putting us in a great position to deliver another year of steady and profitable growth.

With that, we're happy to take questions.

QUESTIONS AND ANSWERS

Operator

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

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

Congratulations on the good quarter here. So I want to start with the bookings and sales commentary. I think like a top 3 quarter in your history in terms of incremental dollars added to backlog. And your comments do sound positive, but you also had the Amdocs is not immune type of commentary there. So let me ask what you're seeing in terms of your investor -- in terms of your client conversations with regards to projects, new sales? How is it evolving in terms of speed of decision-making, size of contracts, those types of things?

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

Ashwin, so as we mentioned, yes, we are not immune. I mean we like ourselves that we are a very strong company, but we are not immune to everything that's going on around us. But I think that overall, we see a lot of demand to our services. The area of growth for Amdocs today are highly strategic for our customers. Everyone wants to be successful in -- when they deploy 5G use cases, fixed wireless, network automation. Everyone wants to move to the cloud. So while there is some uncertainty, I can tell that we see that we continue the project with our customers. These are highly important for them and we see a very rich pipeline ahead of us.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

I understand. And then during the quarter, you did have layoffs. There's obviously the charge there. What are the forward-looking financial benefits from there? And are they now incorporated? I mean I know you still are saying midpoint of the margin range. But why should it not be more towards the upper part?

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

So I think in general, when we look on the opportunity for margin expansion, as I'm sure you recall, we raised the operating margin range for fiscal '23 in the beginning of the year, where now we are guiding for a midpoint of an elevated range. So we definitely see the impact of many investments we have done and continue to do in automation and tools and the methodologies of how we deliver things. And this is, I think, is at the heart of our kind of unique opportunity in terms of how to bring value to customers as well as doing things in a more efficient way.

Another very important element that has to do also with managing labor in a smart way has to do with how we think about our global delivery and our global execution when we are leveraging geographical locations around the world and what we see as our strategic sites around the world, thinking about things like locations, in terms of access to skills, cost structure, proximity to customers, et cetera, et cetera. There are many considerations at play, and we are looking on that as something that is a major, I think, differentiator as well in speed to deliver and managing demand that may change from time to time, et cetera.

And of course, it's about how we are investing in our people and how we are investing in talent to make sure that they are -- with high retention rates in the company that they are moving and developing the skills in a way that can actually benefit them in their managing their career as well as the company.

So Ashwin, we are very focused on all of these levers. And yes, we have done some adjustments in workforce that we have mentioned. But I think in the grand scheme of things, it's not something that is moving the needle either away from the company margin profile. But at the same time, it's a healthy shift that we felt that it's the right thing to do, to adjust to how we are looking on our site strategy and the whole structure of how we deliver to our customers.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

Understood. So more about being nimble and quicker to respond.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

Yes.

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

Yes. Definitely.

Operator

And our next question comes from the line of Timothy Horan from Oppenheimer.

Timothy Kelly Horan ***Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Kind of a qualitative question. As you have more and more cloud-based services as a cloud platform, do you think you're helping your customers more? Can you help them drive more revenue? Can you help them hyper automate a little bit more? And did the customers kind of recognize this at this point?

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

Was the question about moving to the cloud?

Timothy Kelly Horan ***Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Yes. As you -- I mean how much more of an improvement it is for your customers as you move to the cloud.

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

There are many, many values moving to the cloud environment. I mean there is some basic value like you get elasticity. We just mentioned in the prepared remarks that with a very good peak retail season like Friday and holidays, and we have like an amazing service to our customer. So today, in the on-premise environment, you need to buy the hardware to support Black Friday, which is much bigger than the normal. So you get some elasticity, but I think the main -- when you move to the cloud, in many cases, it's part of modernization. And then you get a much secure environment, much agile environment, better operational tools. So you can do things faster and cheaper and be much more competitive. And as I said, it's also helped with the elasticity.

So if you look at it, there are many, many benefits to our customer to move to the cloud. And I think this very unique agility, changing market offer and do things much faster, much more secure environment, giving all the security trust that everyone is seeing today. So all in all, I think it's a very holistic value proposition, which comprise of many, many, many areas.

Timothy Kelly Horan ***Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

And just to add to that, artificial intelligence now is becoming pretty important and ChatGPT seems to be a pretty big breakthrough. Are you increasing your investments there? And is there a way for you to use ChatGPT maybe with -- for your customers to customer engagement and time to your systems?

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

So I think definitely, we are evaluating this. But generally speaking, we talk about how we use artificial intelligence. We -- obviously, in Amdocs system, we have a lot of data about our customers. And as I mentioned today, we developed a cloud environment that are helping our customers to serve their customers or their consumer better in a way that's understanding what is the consumer demand and what will be the right offer. So this is something which is, I think, growing and we deploy more and more this type of solution to our customers to better serve their consumer or businesses based on what they know about them.

Regarding ChatGPT, as we speak, we are looking to it. We think it can have some -- obviously, some place in call center application. Another thing that we are looking right now. And I believe that's probably in a quarter or 2, but will be much more mature in our evaluation of how we can integrate it to our platform.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

Just to add on the AI as a topic, I think it's also important to think about it in the context of how we are automating, how we do things for our customers. So when we think about things like zero-touch operations and self-filling processes, a lot of AI-driven decision by going into that and...

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

This is something operations will say.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

We feel this is enhancing our operations to be much more technology-led and innovative in how we can deliver value to our customers.

Operator

And our next question comes from the line of Tal Liani from Bank of America.

Madeline Nicole Brooks ***BofA Securities, Research Division - Research Analyst***

This is Madeline Brooks on for Tal for Bank of America today. Just 2 questions from me. First, I was going to be looking at your guide. I just wanted to understand the breakout of organic growth given that the deal that was announced last year and was factored to have around 60 bps of revenue growth in the guide as of 4Q, given that that's not happening anymore, I wanted to know just if there's any commentary on organic growth without the deal.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

So given the fact that we are reiterating the guidance even though this deal is not coming through, you understand that whatever was supposed to come from this deal, the 60 basis points of growth are going to be coming from organic additional and incremental revenue, and therefore, we can hold the line on our expectations of growth for the year. So pretty much, you can say that the year is growing based on organic revenue growth.

There is some, I would say, full year impact of small deals we've done last year, but that's marginal, but we definitely are pleased to see an improvement in our organic performance despite the fact MYCOM is not happening.

Just to be clear, we are not counting on any future M&A that has not been announced to make the numbers. This is based on the current known business and the assets that we have.

Madeline Nicole Brooks ***BofA Securities, Research Division - Research Analyst***

Okay. Perfect. That was going to be one follow-up. So then I'll pivot to the other follow-up. Just wanted to see if there's any concern in spending deceleration with service providers? And have you noticed any incremental change as the first quarter progressed?

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

Look, looking on the deal signings and the strong momentum of sales we've done in Q1, you can clearly see the outcome of that in the strength of the backlog and the fact we're reporting a record number and a very strong sequential increase of $120 million to the backlog versus prior quarter, we are seeing a solid pipeline. Yes, naturally, people are focusing sometimes about how to create an immediate impact, a shorter-term impact. We're bringing them a lot of tools and capabilities that enable them both to accelerate revenue generation as well as deal with efficiencies and cost structure.

For example, our model of managed services or what we call the transformational and managed services together is like the sweet spot of both. We can help our customers with our product suite, modernize their systems, move to the cloud, be ready for the 5G and digital world. And at the same time, provide them under a multiyear agreement, a committed cost structure, predefined KPIs and we take the full accountability for that. So we are coming either with this model or some of it depends on their appetite and how they want to go about it.

Operator

And our next question comes from the line of Will Power from Baird.

William Verity Power ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

It looked like nice results. I guess, first question is just on a couple of the geographies. I mean, North America, of course, strong, but I'm curious on the European strength, if there's any other color there on what drove that year-over-year growth. I'm really just trying to understand the durability of this higher revenue level. But I guess on the flip side, rest of world was weaker year-over-year. I know you expect that to still grow. So I'm just trying to understand the confidence level and the drivers of growing that rest of world business year-over-year?

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

Yes. Sure. So yes, we are very pleased with the performance of North America. It continues to be strong. And to remind you, in Europe, specifically, I've been talking for some quarters now about the fact that Europe is growing on a constant currency basis, but unfortunately, the reported number didn't look as much because the currency was a big headwind. Finally, now when we have a quarter where the currency was not a headwind, you can clearly see the reported number of Europe growing. So it's not only just a constant currency growth, it's also on a reported level growth. And the fact is we have been seeing a very strong momentum of wins and new activities in Europe for some quarters now fueling our business.

So it usually takes a bit of time between signing and deals starting to recognize revenue, and we continue to see very nice signings. So it's not just that we are using in a way the past deals that have already gone into the backlog. We are continuing to see new deals. You've seen the pipeline and the new logos that we talked about, for example, called in Europe, as well as expansion of relationship with organization with Vodafone and with Three UK, and there are many other examples that we could not name specifically. So we are happy about the momentum we are seeing, and we feel it will continue.

And regarding the rest of the world, our business in rest of the world depends also on project activity. And sometimes there is a specific quarter like we just had in Q1 where certain activities naturally end as they mature and the project go live and then does a matter of the timing of the beginning of the new project awards. So that's when we have, on the one hand, Q1 with some softness, but the confidence we see a fast recovery and for the full year that we will see growth in the region.

William Verity Power ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Okay. And then, Tamar, if I could slip in one more. I know you all focus, I think, more on operating margins, but the gross margin has kind of continued to tick up. I wonder if you have any comments on kind of the key drivers of the gross margin expansion and what the outlook is for that going forward?

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

So as we usually say, we are focused on the operating margin more so than the elements underneath such as the gross margin versus the R&D, and we are investing in R&D, and we have accelerated investments in R&D. And some of this investment goes into automation that helps us do our execution better and more efficiently. But it's not necessarily that you should take the gross margin per se on a stand-alone basis and draw significant conclusions from that.

On the other hand, for example, you can see that the SG&A was a bit higher this quarter. Again, there are some specific items that go into that, not necessarily consistence expected in the next quarter.

So that's why we are very focused bottom line on the operating margin, and we feel that we will be able to execute on the operating margin around the midpoint of our new elevated range give or take a few tens of basis points maybe one direction, the other direction. We think that this will be the continued consistency of activity of the company.

Operator

(Operator Instructions) And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Matthew Smith for any further remarks.

Matthew E. Smith ***Amdocs Limited - Secretary & Head of IR***

Yes. Thanks, John, and thanks, everyone, for joining today's call and for your ongoing interest in Amdocs. We do look forward to hearing from you soon. And please reach out to us here in the IR group if you do have any additional questions. And with that, have a great evening. Thanks.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.