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# EDITED TRANSCRIPT

DOX.OQ - Amdocs Ltd at Barclays Global Technology, Media and Telecommunications Conference (Virtual)

EVENT DATE/TIME: DECEMBER 07, 2021 / 8:00PM GMT

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## CONFERENCE CALL PARTICIPANTS

**Tavy Rosner** *Barclays Bank PLC, Research Division - Head of Israel Equities Research*

## PRESENTATION

**Tavy Rosner** - *Barclays Bank PLC, Research Division - Head of Israel Equities Research*

Hi. Good evening, everyone. I'm Tavy Rosner, Research Analyst at Barclays, and I'm pleased to host today Tamar Rapaport-Dagim, who's the COO and CFO of Amdocs. Tamar, thank you so much for being with us today.

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

Thank you, Tavy. Good to be here.

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**Tavy Rosner** - *Barclays Bank PLC, Research Division - Head of Israel Equities Research*

It's always great to have you. Before we jump in, I thought that for investors, we're not selling you with the story, can you take 2 minutes to describe what is it that you guys do and the nature of Amdocs business model, which is key to the company's market differentiation.

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

Sure. I'd love to do that. So we're at Amdocs actually enabling the community service providers of the world to simply provide a better experience for their customers. Their customers may be consumers, small businesses, all the way to large enterprises. And we were sitting at the heart of the key business processes, the software and automation that we develop, deploy and if the customer would like to also in the IT environment, for the different key business processes that they have. And you mentioned the unique business model that we have, and that has to do with the fact that we are coming with a cutting-edge technology stack that is the software products that we provide to the market. We take responsibility to deploy these software products into the customer environment, into their IT environment. And we also support both through ongoing support model all the way to multiyear managed services model, the different software stack that we deploy with our customers.

That in turn, generate healthy revenue stream, of which 30 quarters are recurring in nature and about 1/4 is coming from these new activities where we license and deploy new modernization on our projects to our customers. Our customer base is covering 85 countries. Leading names that I'm sure all of you are familiar with, such as AT&T, Comcast, T-Mobile, all the way to Europe with groups such as Vodafone, Three Hutchison Group in APAC, SingTel Group, Axiata Group, Latin America, América Móvil, Telefónica and many, many other customers we're serving 350 customers around the world, and are covering also through a global delivery model, many centers in which we employ 28,000 employees around the world, very proudly support the communication service providers, as I mentioned before.

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## QUESTIONS AND ANSWERS

**Tavy Rosner** - *Barclays Bank PLC, Research Division - Head of Israel Equities Research*

That's helpful. So before we dig into the growth driver and the trend I wanted to talk about the foundation, which means investments in R&D, products, infrastructure, everything that you've put together since 2018 in anticipation for the revenue inflection point, which we'll talk about in a second. So what has been the priority in terms of investment and how has this strengthened Amdocs business model?

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

So Tavy, what seems to be just an overnight success of inflection point in revenue acceleration from rating company who used to go 2% to 4% every year now in the neighborhood of 7%, 8%, high single digit. Obviously, it starts with identifying key megatrends that are happening in the industry and investing ahead in coming ready with the right products, the right offering to the market. That is now adopted by many of our customers.

And I would like to mention some key trends that we see in the industry. Many of them are multi -- all of them actually multiyear trends that are happening of investment cycles. And to a large extent, we are still in the early phases of those investment cycles. So let me start one by one. First is the cloud and the journey of the industry to the cloud. We see that in the telecommunication industry, where we're talking about the mission-critical applications that we serve, the journey to the cloud is now in the beginning. We are seeing a shift of key software elements, all the way to network to run on the cloud. And we are sitting at the heart of enabling that and this journey to the cloud of all our customers, starting with the fact that our software stack is cloud-native, everything in the last several years that comes out of an R&D lab is cloud native by definition and enabling to enjoy the benefits of running applications on the cloud.

We are helping our customers also to take legacy applications and migrate them to the cloud because not necessarily every carrier wants to rip and replace 100% of what they have with new cloud-native applications. So we tailor the journey to the cloud to every customer. By the way, a company we acquired called Sourced, which is high-end consulting boutique house for this migration to the cloud, is enabling us to be now at the forefront of building this customer journey to the cloud. So we can help the customers say before we deploy new software products, migrating legacy applications to the cloud, all the way to running the application stack through the cloud ops that we support.

Some examples could be, we are running a large-scale transformation in T-Mobile U.S. these days, which is cloud native with the new stack, but includes also some elements of migrating existing applications to the cloud, and we won an award to run it on cloud ops in a multiyear managed services agreement.

The other cycle that is a big one is 5G. Everybody in the world will move to 5G and some markets are more ahead of the curve like the U.S. market or South Korea. But we're also starting to see more and more activity around that clearly in Europe and then following in APAC and Latin America. So the cycle may be at different phases, but we're seeing the large investment cycle in 5G. And we are coming with the enablement to monetize the 5G. So when you think about the billions of dollars invested in buying the licenses for the frequencies and then in the buildup of the network. And then obviously, you want to monetize that as the communication service provider, we are enabling that kind of monetization through different parts of the software stack we enable.

An example for that can be Korea Telecom in South Korea, where we sold a deal to help them with the monetization all from the U.S. market, recent deals have been with Verizon, with AT&T and now there's -- we are also seeing a continuous investment in digitizing all the interaction points with the end customers. And again, it's not just consumers. It could be also the business segment that is actually a very interesting growth engine for many of our customers.

So when we are talking about this digital transformation, it started several years back, has been accelerated by COVID because everybody understands that the multiple touch points with the customer at the place of choice that they have, whether it's the mobile phone, could be the desktop at home, all the way to any kiosk or whatever the case would be is something that they would like to have in a personalized, a great experience in terms of the interaction, all the way to understanding who is that end customer and how do we tailor the experience to that specific end customer. Again, whether it's a family, an individual or an IT professional sitting on behalf of a certain business, interacting in terms of the requirements for new businesses. And that digital transformation is continuing to be a mega trend for the industry.

The fourth one is the network automation. We are seeing a major shift of networks around the world to be more cloud-oriented and software-based. And with that comes new needs of network automation, network orchestration, how do you connect between the design of the network and the activation of new services and create flexibility to the service providers to launch those new services to the market.

And also here, we are seeing great success in pushing that forward in multiple customers around the world, both in North America as well as internationally. So going back to your question about R&D investments, we've identified these trends. We invested heavily in these trends and, in fact, seen the great success of our market leadership with a major acceleration of bookings and awards through 2021 fiscal year, we ended '21 and entered our '22 fiscal year with a 12 months backlog of \$3.7 billion, which is implying an acceleration -- a growth acceleration of our 12 months backlog to more than 10%. This is a very important leading indicator for us for the year ahead and have in the matching between the offering we bring to the market and those industry mega trends that we are coming with the right offering and that we are continuing to win a very large share of deals in the market.

And going back to the R&D, not only we identified those trends ahead and invested in them, we actually accelerated the R&D investment in 2021 and grew it by more than 10% pushing forward being ahead of the curve and taking opportunity of that market momentum.

While doing that, important to say, we actually improved the overall operating margins of the company. So we are balancing between this business success, ability to expand margin while investing in our future.

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**Tavy Rosner** - Barclays Bank PLC, Research Division - Head of Israel Equities Research

I mean you touched on the key growth drivers that I want to talk about each of them separately shortly. But first, I wanted to take an overlook at the outlook. In your recent Investor Day, you introduced a SAM of \$57 billion up from \$36 billion in 2020. And can you run us through the different components and the driving force behind this SAM expansion? And I think as a natural follow-up, and just to tick the box, does that SAM include only the domains that you're currently serving? Or are you factoring in new domains that you guys might enter down the road?

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

I think to provide some context to that, let's start with the fact that when we are looking on the total serviceable market that we have in front of us, let's start with the \$36 billion, which is the 2020 estimation. While being a market leader and definitely recognized as such by industry analysts that are covering the domains in which you compete, we are still 10% plus of the market, which means there is a big room for grab even in the areas that existed before those large investment cycles.

Having said that, the new money awarded every year is not the overall spend, of course. So the transition into a new provider, a new partner like Amdocs is not for the whole market ever year. We also enjoy that consistency because once we get in our track record shows we have 100% renewal rate and we bring value in the extent from there within existing customers, which I can cover later on.

Talking back about the SAM and the SAM expansion, we believe that in the domains in which we operate, and the fact that we have identified those growth investment areas in which our customers are investing a large portion because this is their future and that goes back to the trends I mentioned, investment in moving to the cloud, investment in 5G, in the digital transformation, in the network automation, those are the growth areas within the relevant market spend that we see. So the fact that we can ride this expansion of the serviceable market has to do with the fact that we invested in the right things beyond our already market-leading position that we have.

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**Tavy Rosner** - Barclays Bank PLC, Research Division - Head of Israel Equities Research

Yes. And as a follow-up -- so my follow-up. I mean -- there's definitely been an inflection point when it comes to revenue growth. And I think in '20 -- in fiscal '21, you grew at 7%. You guided for 8% at the midpoint of '22. And doing back of the envelope CAGR on the SAM, moving from \$36 billion to \$57 billion is roughly a 10%, CAGR is 25. And you also mentioned the backlog starting to grow at double digits. So are we back to growing at a double-digit territory. Down the road, obviously, you're not guiding, but is that something that we can think about in the foreseeable future.

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

So we definitely left the neighborhood of the low single-digit growth into the high single-digit growth. That is already proven in the numbers of '21. And obviously, we have good predictability into our midpoint guidance of 2022 and the high end of the guidance for 2022 is 10% growth.

Now looking on the serviceable market, expected CAGR, looking into the fact that we do have a very high win rate and the match of the offering and the fact we continue to invest, we are not standing still. We are optimistic and seeing the opportunity here to stay at that high level or even better. Now I cannot guide for specific numbers because to do that, we need more bottom-up approach rather than just look from the opportunity of the overall market. But the stars are aligned in the sense that we are serving the right growth domains. Those are multiyear industry trends of investment, we are still in the beginning of the cycles of many of them, as I said, and we are very well positioned to enjoy those trends.

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**Tavy Rosner** - *Barclays Bank PLC, Research Division - Head of Israel Equities Research*

Great. That's something to look forward to. So touching on one of the key growth drivers you mentioned, which is 5G, everyone is talking about 5G, you talked about the addressable market and I'm wondering what does it mean in terms of new business models and opportunities for you guys? And how did the acquisition of Openet fit into your overall 5G strategy?

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

So clearly, the launch of 5G is enabling the service providers to come out with new use cases and new capabilities that are expanding how they're serving their customers. It's not just about connectivity, it's about providing potentially more holistic solutions, whether those would be for industries that are requiring different solutions, automotive, health care, whatever the case would be, all the way to very interesting use cases for consumers, bundling, for example, virtual games with connectivity. And from the end customer point of view, the connectivity is just the enabler. Of course, you're not selling bandwidth, you're selling quality of service and you're selling quality of service potentially with a gaming company as a partner. And this kind of ecosystem in which we believe the service providers will be enabling that with a certain ecosystem of partners is what we are enabling. So we're giving them the engines. We are giving them the capabilities to be very flexible, to come to market in different use cases.

We see ourselves as the one that can provide all the elements that will be required in order to do so and leave them with the capability to decide how they want to move ahead. So we, as Amdocs don't need to bet on a certain successful use case. We can provide the flexibility for them to launch any use case they would like to be at. Naturally, in some cases, we want to be even in a, I would say, a far front of -- at the front of those market changes in terms of building the right ecosystem. I'll give you an example. We came out with a platform called MarketONE, where we are not only providing the enabling platform to onboard and monetize through different settlement mechanisms, partners. Partners can be over-the-top entertainment and media, could be a gaming company, anything you can think about as a partner. We are also trying to create the partner ecosystem and bring it readymade.

So a company like AT&T or T-Mobile or anyone else can just plug in MarketONE and have already not only the enabling technology and platform, have already the partner ecosystem that we bring with it. So in that kind of example, we are helping to ignite and accelerate the adoption rate for this kind of use case.

In other use cases, we may be just on the technology and enabling platform. And we will decide the opportunity how we want to play it.

Now regarding our own monetization in ideas like that, we can come also with the different monetization models. So if I'm going back to the MarketONE, the monetization model there is a SaaS model, where we are enabling a very fast onboarding for the communication service provider. And then we are getting paid by the activation of new users and new use cases. So that's a different monetization model for us and maybe just building the capabilities or building the platform in terms of digital transformation that looks differently. So we are looking on a case-by-case basis and seeing also how we are better positioned in terms of the right monetization model that we can enjoy the scale and the adoption rate of these kind of use cases.

**Tavy Rosner** - Barclays Bank PLC, Research Division - Head of Israel Equities Research

I wanted to touch on the second growth driver that you mentioned, which is the journey to the cloud. Not everyone is familiar, so can you just quantify the addressable market that's likely to transition to the cloud in the foreseeable future. And I guess at the same time, if you can talk a little bit about your go-to-market, like I remember when you signed a collaboration with Azure, which heads up to AWS. So looking at everything together, if you can talk about the vision, the go-to-market and which products are optimized to want to develop that.

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

So it starts with the fact that every new software, every new technology we come to market with is already cloud native. And then we allow our customers to decide when they want to activate the capabilities on the cloud or at the same time, they can still use it in a private environment. So we allow the hybrid coexistence of a situation that we believe will prevail for some time where our customers run certain capabilities on-prem or in a virtual private network or on the public cloud with the hyperscale providers. And we provide a combination if they want to do so.

But every new software stack is already cloud-ready. So if you think about it, if you are now T-Mobile, investing in a stack of new software for any business support process or any network automation process, et cetera, it's natural that they will want to adopt a new stack that is already cloud native, whether they are moving tomorrow to the cloud or not. In the case of T-Mobile, they are moving to the cloud. So that's, I think, a very important part of everything that everyone -- when you hear that we are selling now a new project and that we won an award to build a new stack for serving customers by design would be cloud native.

On top of that, as I said before, the customers would like to have the flexibility to move certain existing applications that are already running to be on the cloud, but not necessarily rip and replace by a new stack. So we have a journey that -- in which we enable them to take existing applications and move them to be cloud-ready. They will not enjoy all the benefits of moving to the cloud because it's still an older application that was migrated to the cloud, but they can enjoy a lot of capabilities already. And we are aligning multiple programs like that.

For example, we talked about running a big program in AT&T in which we are taking hundreds of applications of AT&T and migrating them to the cloud. And we are doing it with other customers as well.

On top of that, what we see the opportunity is that running those software applications on the cloud is if you think about it the next generation of the managers, so maybe I will remind what managed services is for us. When we talk about managed services engagements, we are running and operating and enhancing on an ongoing basis the software application for our customers. something that potentially may be the internal IT organization could have done, but in many of our customers, in dozens of our customers, we already do it for them. And that's usually structured contractually under a multiyear engagement. And that is part of the reason we can also talk about a very high level of recurring revenue in the company of roughly 3/4 of our total revenue.

When you think about how the next generation of managed services looks like, it will include naturally the cloud ops of those new software stack that will run on the cloud. And we're building a lot of sophisticated IT and automation tools to do it in an innovative way all the way to have zero touch of human intervention in these IT operations. And we are already having thousands of processes of portfolio automated. In fact, in certain customers, we will have already 30%, 40% of the processes that we are running are fully automated, what we call zero-touch operations.

So we see the opportunity coming from those 2 directions. And it's hard for me to say a specific quantification because in some way, as I explained before, every new modernization should be cloud, okay? So whether the customer decided to put it on the cloud tomorrow or in 2 years, that's their discretion.

When we're looking on the overall trend that is happening, naturally more and more customers are moving applications to the cloud. We believe that in our domain, in the mission-critical applications of the communication industry, roughly speaking, it's still probably 10%, 15% of the full opportunity is undergoing now. So we are still relatively early in the cycle. And you mentioned rightfully so that we have a very strategic relationship with all the leading cloud providers with AWS, with Microsoft Azure, with Google. And we are working with them in order to bring the best solution for the customers.

Eventually, the customer is the one that can decide what cloud they want to run on, and we would like to optimize it for them for their selection and their preferences. So for example, in T-Mobile, they are running many of our applications on AWS, in AT&T, it's on Microsoft Azure, and we need to be flexible and support both, of course.

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**Tavy Rosner** - Barclays Bank PLC, Research Division - Head of Israel Equities Research

We don't have much time left so I have to be picky in which questions, but the one I really wanted to touch on is AT&T. It's by far your largest customer. And the history has been interesting. It seems that you reached an inflection point in 2019. And we saw first a multiyear managed service that you guys announced in late 2019, if I remember correctly. And then you had 5G contracts a few months ago. And then a few weeks ago, you said you were selected for cloud operations and support to AT&T G.fast.

So looking at your relationship, can you run us through the dynamics and how you see the future with these key customers in terms of contract wins?

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

Sure. And I think that opportunity maybe to elaborate first on how we're thinking about growth within the customer base and then take AT&T as a great example for that. As a player in the industry and a market-leading player in the industry, we obviously have incumbency already to many customers, and we feel there's a great opportunity to expand there, and AT&T is a good example, which I will elaborate in a minute.

Beyond that, we also have customers of scale we penetrated, but still in a relatively small level vis-a-vis the opportunity. Examples of that could be Verizon, Charter. Those are customers that are relatively still to the opportunity small for us, but the opportunity is huge. We are seeing the momentum. Verizon, for example, is a relationship that warmed up significantly in the last 18 months. We are winning more deals. Can it become 1 day like an AT&T for us? Ideally, yes, it will take time, but we're optimistic that we can move forward.

Same with Charter, where we are seeing a great momentum and then there are other examples.

The third cluster of customers, we should be able to extend from is new logos. And new logo can be a totally new logo, many of the international lanes we added to our customer list over the last decade, became very meaningful customers contributing already tens of millions or even more than that into our customer list, by the way, 5 out of our top 10 customers are international customers outside North America. So you can see those are becoming very meaningful in terms of contribution to the numbers.

And at the same time, we can continue to expand within what we call galaxies of international names such as Vodafone, that have multi-affiliates in different countries or Telefónica or Three Hutchison Group. And we have many great examples where we started with one operating company in a certain country, in that kind of Galaxy, show the value of bandwidth and expand it from there to more affiliates in the group.

Going back to AT&T. AT&T is a long-term customer, our largest customer, and one in which we are proud to say we are partnering with for many of their strategic investment cycles over the years. Speaking about now, they are talking publicly about focusing on mobility and consumer mobility and kind of back to basics. Divesting the business of media, divesting DIRECTV and focusing on connectivity. We are at the heart of this strategy. We have been selected by AT&T after being over many years their partner to build now the new stack for consumer mobility. So again, in a way, AT&T reelected Amdocs as their partner to build the future.

We are also running a lot of the existing applications of AT&T under a multiyear managed services engagement. And rightfully, you said that we've signed a 4-year agreement 2019. And now they extended it to through 2026. And beyond that, it's not just extension in time, it's expansion in scope to be the ones also running new cloud ops for them when the new stack that we are building for them is going to go live.

So with all of that, we continue to see expansion in AT&T into new domains. We've also won a deal around cloud applications and shifting them, as I mentioned before, as an example, and many other new activities, which we are very proud about.

**Tavy Rosner** - Barclays Bank PLC, Research Division - Head of Israel Equities Research

Thanks for that. We're running out of time. So you -- is there anything I didn't ask that is critical and flagging or any final methods that you want to say to everyone?

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

Thank you, Tavy. Just maybe to add that this great inflection point in the growth acceleration we see as a multiyear cycle is converting then to healthy margins, and we expanded margins and then into cash flow in a very healthy way. So we believe that growth acceleration with very healthy margin and consistent margins with great conversion rate into cash flow, plus our capital allocation between investment in growth and between returning cash to shareholders is also translating itself to double-digit shareholders' return in terms of EPS growth and dividend yield. So now in 2022, we are guiding for a second consecutive year of double-digit total shareholders' return. So it's not just top line, it's also the bottom line, and we are very excited about this opportunity. Thank you very much, Tavy.

**Tavy Rosner** - Barclays Bank PLC, Research Division - Head of Israel Equities Research

Thank you, Tamar. Thanks for taking the time.

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