AMDOCS Q4 2020 CONFERENCE CALL SCRIPT
FINAL

November 10, 2020
5:00 pm

Matt Smith:

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, 2019 filed on December 16, 2019 and our Form 6-K furnished for the first quarter of fiscal 2020 on February 18, 2020, for the second fiscal quarter of fiscal 2020 on May 18, 2020, and for the third quarter of fiscal 2020 on August 17, 2020.

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

Thank you, Matt, and good afternoon to everyone joining us for our fourth fiscal quarter earnings call today.

I want to begin by reviewing our quarterly and full year operating performance, after which I plan to address some important strategic steps that we have taken to accelerate our long-term growth around 5G and the cloud. I'll wrap up with a quick summary of our financial outlook for fiscal 2021, including our expectation for a faster pace of revenue and non-GAAP diluted earnings per share growth in the year ahead.

With that said, I am pleased to report record fourth quarter results which included a return to sequential revenue growth.

Among the additional operating highlights:

- We delivered consistent execution
- Accelerated our R&D investments
- Maintained stable profitability, and
- Achieved our best-ever quarter for cash collections

Amid the ongoing global pandemic, we were also pleased to see an acceleration in sales momentum, as reflected in our record 12-month backlog which grew $140 million sequentially and 3.7% year-over-year in the fourth quarter.

As to the full fiscal year 2020, revenue grew 2.0% as reported while non-GAAP earnings per share was up 3% year-over-year, both of which were at the higher-end of the revised guidance we provided in Q2.

Our ability to generate modest revenue and earnings growth during a global pandemic is a testament to the strength of our technology and product-led services model, and the visibility provided by our solid base of highly recurring revenue streams. These recurring revenues accounted for roughly three quarters of total revenue in fiscal 2020, a large portion of which flowed from managed services engagements with customers under multi-year agreements.

As further proof of our stable business model and ability to meet our customer commitments, we generated normalized free cash flow of $527 million in fiscal 2020, which exceeded our initial target of $480 million for the year.

Overall, I am proud of our financial performance in fiscal 2020, which was made possible by our talented employees to whom I am grateful for their extraordinary professionalism and commitment throughout the ongoing pandemic. Additionally, let me again thank our customers for their continued trust in Amdocs as we partnered to ensure the essential services the world needs at this difficult time.

Now, let me provide some color regarding our regional business activities.

Beginning with North America, we finished a positive year which included better than expected growth at AT&T, and contributions from M&A. Across the broader region, we supported the strategic activity of customers like Comcast Business where our open and modular BSS and OSS platforms are being implemented to automate, streamline and scale the end-to-end customer lifecycle.

- ✓ Regarding the outlook in North America, regional market dynamics are favorable and supportive of growth. Service providers are continuing with strategic investments in digital modernization, media, 5G and the cloud, including at AT&T where last quarter we said that Amdocs had started a program to modernize the consumer mobility domain.

- ✓ We are encouraged by positive signs of momentum in this area, as demonstrated by today’s news that AT&T has selected our 5G solution to quickly launch and monetize exciting new 5G services, including gaming, mobile virtual reality, vehicle-to-vehicle communications, remote health and much more.

- ✓ This deal leverages 5G monetization capabilities from our recent acquisition of Openet and highlights the way in which we are collaborating with AT&T to bring innovative 5G experiences for the future.

- ✓ At T-Mobile, we continue our strategic partnership, working hard to demonstrate our ability to support T-Mobile's strategic domains of postpaid, media, enterprise B2B, 5G network and more.

- ✓ In respect to 5G, Amdocs is collaborating with T-Mobile and others as one of the founding partners of The 5G Open Innovation Lab, which is focused on helping service providers accelerate the wave of 5G advancements around cloud, edge computing, IoT and new customer experiences.

- ✓ Finally, we have won a notable new project with a North American banking group, where we have been selected as a partner to accelerate customer experience and digital transformation across its operations. This deal leverages the proven capabilities of projekt202, which to remind you is a digital consultancy we acquired in fiscal 2018 for its design-led, experience-driven methodologies across different verticals. Combined with Amdocs' transformation expertise, we look forward to teaming with this financial services leader to frame the design, development and delivery of the very best experiences for their customers and employees.

Moving to Europe, we delivered our best-ever quarter which included new deal wins and ongoing project activity with some of the region's largest service providers, like Vodafone Germany and Orange Spain.

- ✓ During Q4 we maintained a high win rate that included a digital transformation award at A1 Bulgaria, a cloud-based provisioning and 5G-ready converged charging deal at Sky UK and the signing of our first project and multi-year managed services deal at Three UK.

- ✓ This was also a busy quarter in Media. Vubiquity extended its partnership with Israel's Cellcom to provide content licensing and processing and was selected to provide content services under a multi-year agreement serving LGI's European affiliates. Vubiquity also successfully completed a significant and complex technology project for Sky and Virgin Media, whereby we processed over 1200 hours of Sky's 4K/UHD content to Virgin Media's IPVOD platform via Vubiquity's AWS cloud.

- ✓ Regarding the year ahead, we expect to sustain growth in Europe by executing against our healthy backlog and further expanding our customer footprint throughout the region.

Turning to Rest of World, sequential trends improved slightly in the fourth quarter.

- ✓ Demonstrating our technology leadership in 5G, we successfully deployed CatalogONE for KT Corporation in South Korea. Additionally, LGU+, one of the fastest growing 5G telecom providers in South Korea, has selected Amdocs CatalogONE cloud-native solution to accelerate the launch of new 5G services, enabling its end customers to benefit from more frequent service innovation and updated plans and bundles.

- ✓ In managed services, we reached a new multi-year agreement with India's Airtel to migrate postpaid mobile and broadband customers to Amdocs' modern digital business system, while in Brazil, Telefonica Vivo extended our existing multi-year agreement with an expansion of scope to include the Amdocs' data management solution.

- ✓ Regarding the year ahead in Rest of World, quarterly trends are likely to fluctuate reflecting healthy activity in Southeast Asia, ongoing macro challenges in Latin America and the project orientation of customer activities across the entire region.

To summarize my regional comments, I believe we extended our market leadership in the fourth fiscal quarter.

Our many project wins reflect the unique innovation we are bringing in the strategic domains where our customers are focusing their spending.

One such domain is the telecom industry's journey to the cloud, which we believe is approaching a tipping point as service providers invest to realize the increased agility, speed of innovation, fast time-to-market and reduced cost of ownership that is needed to meet the business demands of today.

- As a trusted customer partner, Amdocs is highly differentiated by our technology and product-led services model, which uniquely positions us to accelerate the industry's journey to the cloud

Amdocs BSS/OSS is at the very heart of the customer experiences of more than 350 communication service provider's worldwide, providing us with an intimate understanding of the communications environment, and the expertise needed to help service providers transform the way they work.

- Our carrier-grade, cloud-native BSS/ OSS products are best-in-class, and we are always investing to bring fresh innovation using DevOps teams and a CI/CD approach that constantly enhances our platform, drives agility and shortens the customer's time-to-value.

- Amdocs also has a holistic range of services with which to offer every customer a ready and tailor-made journey to the cloud. These services include consultancy, migration and modernization services for new and legacy Amdocs and non-Amdocs BSS/OSS applications, as well as supporting customized cloud-native application development, incorporating data and intelligence capabilities. Additionally, Amdocs offers end-to-end accountability for the customer's cloud operations, including secure and optimized hybrid cloud operations, packaged under multi-year, next-generation cloud operations service agreements.

- The pedigree of Amdocs' cloud offering is well- proven in the market, as demonstrated by AT&T's selection of Openet's charging solution which is designed to speed-up its move to the cloud in addition to monetizing 5G. Additionally, many other new and existing customers have already chosen to modernize on Amdocs' newest cloud-native products, including Globe Telecom, Orange Spain, and Vodafone Germany.

- Looking ahead, we see an expanding pipeline of opportunities as the world's premium service providers formulate and accelerate their cloud strategies. These strategies will be implemented gradually in the coming years, over which time we believe Amdocs' addressable market for cloud services will grow to be billions of dollars.

- To help accelerate the market potential and Amdocs' growth, we are today happy to announce a new multi-year strategic agreement with AWS to deliver integrated, cloud-native BSS offerings and to jointly build and promote a wide range of services to help Amdocs' customers migrate and modernize their systems, utilizing best in class cloud capabilities.

- We look forward to working closely with AWS -- as well as our other partners like Microsoft Azure and Google Cloud -- to ensure that we are providing a journey to the cloud for all current and future Amdocs customers.

As part of another move to focus on our strategic domains, we have today signed an agreement for the divestiture of OpenMarket, an Amdocs subsidiary, for $300 million cash with Infobip, a company in which One Equity Partners is the primary institutional investor.

- Those of you who have followed Amdocs for a while may know OpenMarket as a leading provider of mobile messaging solutions to enterprises, including global one-way and two-way SMS, MMS and other Application-to-Person messaging solutions. With this transaction, Amdocs is divesting a non-strategic asset and being laser-focused on our core strategic growth initiatives.

- We expect to complete the divestiture of OpenMarket within the next few months and will plan to return the majority of the net proceeds to shareholders by way of our quarterly share repurchase program.

Turning finally to our outlook for the year ahead, let me remind you that we remain in a time of great uncertainty regarding the spread and severity of the COVID-19 pandemic and its adverse effects on the global economy remains.

Having said that, we expect our revenue growth in constant currency will accelerate to 3.5% to 7.5% in fiscal 2021, which is more than twice the rate of last year.

Our confidence in the outlook is supported by the visibility of our record 12-month backlog, as well as the expanding deal pipeline we see across our strategic growth domains.

Moreover, we are positioned to deliver expected total shareholder returns of almost 10% in fiscal 2021, including non-GAAP earnings per share growth of 5.0% to 9.0%, plus our dividend yield.

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

Tamar Rapaport-Dagim

Thank you, Shuky.

Fourth fiscal quarter revenue of $1.05 billion was slightly above the midpoint of our expectations of $1.02 billion to $1.06 billion after adjusting for a positive impact from foreign currency of approximately $7 million compared to our guidance assumptions, and a partial quarter from our recent acquisition of Openet, which was not yet included in the fourth quarter guidance range.

On a reported basis, revenue performance included a positive impact from foreign currency fluctuations of approximately $11 million relative to the third fiscal quarter of 2020.

Our fourth fiscal quarter non-GAAP operating margin was 17.2%, above the midpoint of our long-term target range of 16.5% to 17.5% and consistent with our guidance that we will protect profitability despite the COVID-19 related challenges.

Below the operating line, non-GAAP net interest and other expense was $7.0 million in Q4, the mix of which includes interest expense related to short-term borrowings and a full quarter of interest for the 10-year bond issue, and the impact of foreign currency fluctuations. 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 $1.23 in Q4, above our guidance range of $1.16 to $1.22. Consistent with guidance, our non-GAAP effective tax rate of 6.5% in the fourth fiscal quarter was below our annual target range of 13% to 17%.

Diluted GAAP EPS was $1.01 for the fourth fiscal quarter, above the midpoint of our guidance range of $0.95 to $1.03.

Free cash flow was $145 million in Q4. This was comprised of cash flow from operations of approximately $205 million, less $60 million in net capital expenditures and other.

Normalized free cash flow was $161 million in the fourth fiscal quarter. For the full year fiscal 2020, normalized free cash flow was $527 million. This exceeded our initial target of $480 million for the year and reflected a better than expected conversion rate of 108% relative to non-GAAP net income in the fiscal second half.

Please refer to the reconciliation table provided in our Q4 earnings release for an explanation of the difference between normalized and reported free cash flow in the quarter and for past periods.

With a strong collection in Q4, DSO of 75 days decreased by 12 days year-over-year and down by 10 days as compared to the prior fiscal quarter. We remind you that DSO's may fluctuate from quarter to quarter.

The sequential gap between unbilled receivables and deferred revenue narrowed by $2 million as compared to the third fiscal quarter of 2020, reflecting a decrease in total unbilled receivables of $2 million, and an immaterial change in total deferred revenue, both short and long-term. Relative to a year ago, the gap narrowed by $28 million. Changes in this gap are primarily due to the timing of contract-specific milestones relating to the transformation projects we are delivering for our customers. Moving forward, you should expect unbilled receivables and total deferred revenue to fluctuate from quarter to quarter in line with normal business activities

Moving on, our 12-month backlog was a record $3.62 billion at the end of the fourth fiscal quarter, up $140 million sequentially from the end of the prior quarter and equivalent to year-over-year growth of roughly 3.7%. This record high sequential growth in 12-month backlog is mainly a result of new awards across existing and new logos and a benefit of a few dozen millions dollars of Openet Backlog in this number. As a reminder, we believe our 12-month backlog continues to serve as a good leading indicator of our forward-looking revenue, and we are pleased to see it supporting visibility of over 80% entering the new fiscal year.

I am pleased to report another record quarter from managed services arrangements which comprised roughly 58% of total revenue. This performance reflects high renewal rates, the growing adoption of our managed transformation model and the continued expansion of activities within existing customers.

Our cash balance at the end of the fourth fiscal quarter was approximately $984 million, including aggregate borrowings of $750 million. Our September 30 balance sheet reflects the acquisition of Openet for a net consideration of roughly $190 million in cash.

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 strategic growth investments as and when the right opportunities arise. Additionally, we are committed to maintaining our investment grade credit rating.

During the fourth fiscal quarter, we repurchased $91 million of our ordinary shares under our current authorization. As of September 30, we had roughly $678 million of authorized capacity for share repurchases with no stated expiration date, which we will execute at the company's discretion going forward.

Now turning to the outlook, the prevailing level of macro-economic and business 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, and we remind you that our outlook may be impacted materially as our customers continue to evaluate their strategic business priorities and future pace of investment.

As an additional point, our Q1 and full fiscal year 2021 outlook still includes OpenMarket as the transaction is not yet closed. Where applicable, in our guidance remarks we will provide pro forma revenue and non-GAAP earnings per share guidance which excludes OpenMarket for the fiscal years 2020 and 2021. The divestiture of OpenMarket is expected to close within the next few months, following which we will update our full year fiscal 2021 outlook.

With that said, we expect revenue for the first fiscal quarter of 2021 to be within a range of $1.055 billion to $1.095 billion. Our Q1 revenue guidance anticipates an immaterial sequential impact from foreign currency fluctuations.

Regarding the full fiscal year 2021, we expect to deliver accelerated revenue growth in the range of 4.0% to 8.0% year-over-year as reported. This outlook includes a positive impact from foreign currency fluctuations of approximately 0.5% year-over, and roughly 1.5 points of growth from Openet. To provide you with additional color on our growth projections, we expect the ramp-up of customer activity to contribute to an acceleration in the rate of year-over-year revenue growth in the fiscal second half. We are also pleased with the fact growth is expected to be generated across all 3 of our key geographical regions.

On a constant currency basis, we expect to deliver total revenue growth in the range of roughly 3.5% to 7.5% year-over-year.

We anticipate our non-GAAP operating margins to be consistent with the higher-end of our unchanged target range of 16.5% to 17.5% over the full fiscal year 2021. As we continue to operate within the environment of the ongoing pandemic, we remain focused on protecting our profitability while maintaining consistent execution and increasing R&D investments to support our future growth strategy.

We expect the first fiscal quarter diluted non-GAAP EPS to be in the range of $1.09 to $1.15. With respect to Q1, we expect our non-GAAP effective tax rate to be slightly above the high-end of our annual target range of 13% to 17%.

Our first fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 132 million shares. We excluded the impact of incremental future share buyback activity during the first fiscal quarter, as the level of activity will depend on market conditions.

For the full fiscal year, we expect to deliver diluted non-GAAP EPS growth of 5.0% to 9.0% year-over-year. 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.

The impact of Openet on Amdocs' non-GAAP diluted earnings per share is expected to be neutral in the full fiscal year 2021 and accretive thereafter.

On a pro forma basis, giving effect to the OpenMarket divestiture, we expect to achieve the same revenue and non-GAAP diluted earnings per share growth in fiscal 2021, assuming the majority of the net proceeds are used to accelerate our share repurchase program in the remaining quarters of the fiscal year, post closing.

We expect normalized free cash flow for fiscal 2021 of approximately $620 million, which is equivalent to a conversion rate of roughly 100% relative to our expectations for non-GAAP net income.

We expect reported free cash flow for fiscal year 2021 of approximately $470 million. Reported free cash flow includes up to $150 million anticipated expenditures in relation to the development of our new campus in Israel, and other items. As an additional point, we expect fiscal 2021 to be the peak year of capital expenditure for the new campus.

Regarding our capital allocations plans, we expect to return to shareholders in the form of our dividend and share repurchases the majority of our normalized free cash flow in fiscal 2021.

Moreover, we will carefully assess the deployment of capital in fiscal 2021 having regard to the status of the COVID-19 pandemic, the outlook for M&A, financial markets and prevailing industry conditions.

Finally, we are pleased to announce a proposed 10% increase in our quarterly dividend to a new rate of 36 cents per share, which if approved by shareholders at the annual meeting in January, would yield about 2.4% on the current share price. Taking the dividend increase into consideration, we expect the sum of our diluted non-GAAP EPS growth midpoint plus dividend yield to equate to a total shareholder return of almost 10% in fiscal 2021.

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

Closing Remarks:

Thank you very much for joining our call this evening and for your continued interest in Amdocs. We look forward to hearing from you in the coming days and if you have any additional questions please call the Investor Relations Group. Have a great evening and, with that, we will conclude the call.