OVERVIEW:
Co. reported 4Q17 revenue of $980m and GAAP diluted EPS of $0.73. Expects FY18 reported and constant-currency basis total revenue growth to be roughly 0-4%. Expects 1Q18 revenue to be $960-1,000m and non-GAAP diluted EPS to be $0.94-1.00.
CORPORATE PARTICIPANTS

Eli Gelman Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd
Matthew E. Smith Amdocs Limited - Secretary
Tamar Rapaport-Dagim Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd

CONFERENCE CALL PARTICIPANTS

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

Operator

Good day, ladies and gentlemen, and welcome to the Amdocs Q4 2017 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Mr. Matthew Smith, Head of Investor Relations. Mr. Smith, you may begin.

Matthew E. Smith - Amdocs Limited - Secretary

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 effects of acquisitions and other significant items that may have a disproportionate effect in a particular period.

Accordingly, management believes that isolating the effects of such events enables management and investors to consistently analyze the critical components and results of operations of the company's business and to have a meaningful comparison to prior periods. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release, which will also be furnished with the SEC on Form 6-K.

Also, this call includes information that constitutes forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risks and uncertainties that may cause future results to differ from those anticipated. These risks include, but are not limited to, the effects of general economic conditions and such other risks as discussed in our earnings release today and at greater length in the company's filings with the Securities and Exchange Commission, including in our annual report on Form 20-F for the fiscal year ended September 3, 2016, filed on December 12, 2016, and our Form 6-K furnished for the first quarter of fiscal '17 on February 13, 2017, for the second quarter fiscal 2017 on May 22, 2017, and for the third quarter of fiscal '17 on August 14, 2017.

Amdocs may elect to update these forward-looking statements at some point in the future. However, the company specifically disclaims any obligation to do so.

Participating on the call with me today are Eli Gelman, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Chief Financial Officer.

With that, I'll turn it over to Eli.
Eli Gelman - Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd

Thank you, Matt, and good afternoon to everyone joining us on the call today. I am pleased to report solid operating results in quarter 4, during which we managed a record number of transformations and delivered dozens of project milestones into production. We brought innovative product offering to market in areas like artificial intelligence and network function virtualization, and we secured new modernization awards that increased our footprint with several highly strategic customers.

Overall, we closed a successful fiscal 2017 with record revenue and our highest level of profitability in several years. We delivered full year diluted non-GAAP earnings per share growth of 6.4% and free cash flow generation of more than $500 million, both of which were consistent with our initial expectations at the start of the year.

Moreover, we sustained a high win rate in fiscal 2017, finishing with record 12 months backlog of $3.25 billion, which includes key transformation projects with global service providers such as AT&T, Comcast, T-Mobile, Altice and DISH in North America; Vodafone, BT Group and Orange in Europe; América Móvil, Airtel, Telefonica, Telstra, SingTel and Globe in the Rest of the World.

Now let me provide some color of our regional activity in quarter 4 and the market dynamics as we expect to face in fiscal 2018.

Beginning with North America. Performance reflected the ramp up of project activities with various Pay TV operators and included a new multiyear agreement with Altice USA, which we were proud to announce earlier in quarter 4. Known for its agility and innovative approach to market, we look forward to supporting Altice as its strategic partner in U.S.A. And hopefully beyond.

Our win momentum also included wireless customers. T-Mobile USA entered into a strategic contract with Amdocs' Brite:Bill solution to help improve the customer billing process and deliver on its commitment for excellent customer experience. Meanwhile, another major existing customer awarded Amdocs with projects based on Vindicia and our artificial intelligence platform, aia. Regarding the outlook in North America, we remain subject to the uncertainty of future consolidation activity among service providers as we have discussed with you in recent quarters. Additionally, recent market conditions have been quite challenging for a number of service providers in the region, including AT&T. The combination of these market dynamics is presenting some headwinds, which in the specific case of our largest customers, AT&T, is leading us to take a more cautious approach to outlook.

Let me take a moment to elaborate. First, AT&T's impending merger with Time Warner is contributing to a general slowdown in its discretionary spending. This is a fairly natural pattern, the dynamics of which we have seen before in relation to AT&T's acquisition of DIRECTV in 2015 and its attempted consolidation of T-Mobile USA in 2012. The potential business opportunities that Time Warner presents to Amdocs is not reflected in our outlook, but the anticipated transaction is nevertheless affecting the overall discretionary spending of AT&T company-wide.

Second, as a result of its business performance in recent quarters, AT&T has begun to reformulate its broader IT spending priorities in response to the situation. Taking a prudent approach, we therefore expect a reduced level of discretionary spending at AT&T this year. Our best current estimate of which is incorporated in our fiscal 2018 outlook.

To add some historical perspective, this is the fourth time in 10 years that we see we have dealt with negative spending cycle at AT&T although the overall direction of growth with AT&T has been positive for Amdocs during this period. Looking ahead, we believe AT&T's integrated carrier strategy is the right one for the market and for the American consumers, and we believe AT&T will find ways to improve their market position and business results over time. Moreover, we remained confident in the strength of our relationship with AT&T and our partnership, and we continue to work diligently to demonstrate the many dimensions at which we can bring long-term value to this most strategic customer.

More broadly in North America, customer activity is fairly robust on several fronts. Pay TV has emerged as a growth engine for us, and we are working hard to deliver current projects and secure other new awards in the next few quarters. In enterprise B2B, we are focused on moving projects towards production at DISH and another leading MSO. In network function virtualization, NFV, we see opportunities to provide paid services for customers like AT&T and Bell, and we are co-developing new use cases like the intercarrier service orchestration solution based on ONAP that we plan to showcase with AT&T and Orange at the Metro Ethernet Forum later this month.
Additionally, we are working with several cable MSOs on how to deploy NFV services such as SD-WAN and virtual firewall for their mid-market and enterprise customers. Overall, we have many encouraging projects and activities in North America, but the softness at AT&T combined with the intense media speculation around future industry consolidation in the region is creating uncertainty. And our quarterly trend in the region is likely to fluctuate in the foreseeable future.

Moving to Europe. Quarter 4 was the strongest of the fiscal year and included several major wins. Earlier in the quarter, BT Group announced its selection of our new Brite:Bill solution. Additionally, the merged company of Vodafone-Ziggo in The Netherlands selected Amdocs to optimize its business integration, deploying Amdocs’ digital enablement stack to provide a seamless customer experience in a rich cross-company portfolio of services. This award continues our long-term and successful relationship with Vodafone Netherlands and offers encouragement that the integrated carrier strategy is also applicable in Europe.

Looking ahead, we expect Europe to grow in fiscal 2018 as we leverage our market position, although quarterly trends will remain subject to timing of strategic customer activities and the macroeconomic, political and foreign currency environments of the region.

Turning to the Rest of the World, where we also concluded fiscal 2017 with a solid quarter and several new awards. We are pleased to announce long-term services contract with Bharti Airtel, India’s largest telecommunications service provider, under which Amdocs will act as a strategic partner to drive Airtel’s digital transformation, deploy machine learning and artificial intelligence capabilities and deliver next-generation services to its customers. Amdocs was also selected by a leading Southeast Asia service provider to support its charging and commerce requirements.

In Latin America, we expect -- we expanded our Radio Access Network optimization activities with Claro Chile, an América Móvil Company. Looking ahead, we expect the Rest of the World to grow in fiscal 2018, supported by work in backlog, a rich pipeline of opportunities and our leading market position in Latin America and Southeast Asia although we remind you that quarterly trends may fluctuate due to the project orientation of our customer engagement in these regions.

To summarize my regional comments, we believe the many wins referenced today reflect our product leadership and excellent track record for project delivery. Looking ahead, our relationship with AT&T is healthy, and we are well positioned to keep bringing value to AT&T although we are seeing some near-term headwinds that are unique and specific to AT&T, our largest customer. Our broader business activity is robust and strong enough to support total revenue growth in the range of 0 to 4% in fiscal 2018. The pace of AT&T’s discretionary spending, the outlook for which is still evolving, will be a material factor determining where we land within this range.

We expect to deliver total returns to shareholders in the mid to high single digits in fiscal 2018, which will be the seventh consecutive year we have achieved this level of performance. We are proud to have achieved this consistency despite challenging market conditions and customer spending cycles we have experienced over this period. Moreover, we believe our ability to sustain similar returns in the future is well rooted in the fundamentals of our business. Let me take a moment to elaborate. First, the value proposition of our unique product-led services model and the superiority of our product set continues to support our high win rate and strong competitive position. Second, we enter fiscal 2018 with a high level of recurring revenues and about 80% revenue visibility provided by our 12-month backlog.

Third, our Managed Services business continues to grow as a natural expansion of our project delivery expertise, as was demonstrated at Altice USA and Bharti Airtel in India during quarter 4. Renewal rates of our existing Managed Services engagements also remains extremely high. Recent example of which includes the multiyear expansion of long-standing agreements with Globe in the Philippines and a leading prepaid provider in North America.

Fourth, we have developed several growth engines in recent years that are relevant to service providers in strategic areas, such as the digitization of the integrated carrier, Pay TV modernization, enterprise B2B, network function virtualization and artificial intelligence. These engines are built and designed with DevOps mindset using micro services methodology, are suited to the cloud environment and are aligned with the market needs of the future.
Finally, we are focused on a proactive and disciplined allocation of capital as a mechanism to enhance shareholders return. More specifically, we remain strongly committed to M&A as a strategic vehicle for long-term growth. But since there were no material transactions in fiscal 2017, we can afford to accelerate our capital return to approximately 100% of free cash flow in fiscal 2018.

To support this, our board has authorized an additional share repurchase plan of $800 million with no expiration date, which we will execute at the company’s discretion going forward. As a further demonstration of our confidence in the future success of Amdocs, we’re also pleased to announce the proposed increase in the quarterly cash dividend for the fifth consecutive year, subject to shareholders’ approval at the Annual General Meeting in January 2018.

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

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

Thank you, Eli. Fourth fiscal quarter revenue of $980 million was slightly above the midpoint of our guidance range of $955 million to $995 million and includes a positive impact from foreign currency fluctuations of approximately $9 million relative to the third fiscal quarter of 2017.

Revenue performance was slightly below the midpoint of our expectations excluding foreign currency fluctuations. Our fourth fiscal quarter non-GAAP operating margin was 17.2%, an increase of 10 basis points year-over-year and in line with the higher end of our long-term target range of 16.4% to 17.4%.

Below the operating line, non-GAAP net interest and other expense was $2.3 million in Q4, primarily reflecting foreign exchange movements. For forward-looking purposes, we continue to expect a non-GAAP net interest and other expense in the range of a few million quarterly due to foreign currency fluctuations.

Diluted non-GAAP EPS was $0.94 in Q4, within the guidance range of $0.91 to $0.97. As we anticipated, diluted non-GAAP EPS was impacted by a higher non-GAAP effective tax rate of 17.1% in the quarter. For the full fiscal year 2017, our non-GAAP effective tax rate was 15.2%, which was within our expected annual target range of 13% to 17%. Diluted GAAP EPS was $0.73 for the fourth fiscal quarter, within our guidance range of $0.68 to $0.76. Free cash flow was $165 million in Q4. This was comprised of cash flow from operations of approximately $199 million less $34 million in net capital expenditures and other. Free cash flow generation for the full fiscal year 2017 was $507 million, which was better than our expectations of $500 million, which we issued at our analyst and investor briefing last December. DSO of 81 days decreased by 3 days quarter-over-quarter. This item may fluctuate from quarter-to-quarter.

Total unbilled receivables increased by $56 million as compared to the third fiscal quarter of 2017. Our total deferred revenue, both short term and long term, decreased by $11 million sequentially in Q4. The net movement in unbilled receivables and total deferred revenue reflects our high level of transformation project activity and resulting timing differences between revenue recognition and the invoicing of customers during the fourth fiscal quarter.

Our cash balance at the end of the fourth fiscal quarter was approximately $980 million. Our 12-month backlog, which includes anticipated revenue related to contracts, estimated revenue for managed services contracts, letters of intent, maintenance and estimated ongoing support activities, was $3.25 billion at the end of fourth fiscal quarter, which was up $30 million sequentially from the end of prior quarter.

During the fourth fiscal quarter, we repurchased $90 million of our ordinary shares under our current authorization of $750 million. We had $256 million remaining under the authorization as of September 30. As Eli mentioned in his prepared remarks, our board has authorized an additional $800 million repurchase plan to be executed at the company’s discretion going forward. That additional authority does not have a date of expiration. As a reminder, we will execute our buyback program at the company’s discretion going forward, and we retain the flexibility to vary the level of share repurchase activity from quarter-to-quarter depending on factors such as the outlook for M&A, financial markets and prevailing industry conditions.
To further elaborate on our approach to capital allocation in fiscal 2018, we remain strongly committed to the proactive and disciplined return of free cash flow to shareholders as well as strategic M&A, which we intend to use as another lever to deliver long-term growth when the right opportunities arrive. Additionally, we are continuing negotiations to acquire prime commercial land located close to our existing facilities in Ra’anana, Israel, upon which we plan to develop a new campus that will provide an advanced optimal working environment to meet the needs of Amdocs Israel, its employees, and to support the company’s future growth. This investment, if consummated, will be financed from internal cash resources. Moreover, we believe our decision to build a new campus will be accretive to non-GAAP diluted earnings per share over the long term and is a reflection of our confidence in the future success of Amdocs.

Now turning to our outlook. We expect revenue to be within the range of $960 million to $1 billion for the first fiscal quarter of 2018. Embedded within this guidance, we anticipate a negligible sequential impact from foreign currency fluctuations as compared to Q4. For the full fiscal year 2018, we expect total revenue growth to be within the range of roughly 0 to 4% as reported and roughly negative 1% to positive 3% on a constant currency basis, after adjusting for the positive impact from foreign currency fluctuations of about 1% relative to exchange rates prevailing at the end of our fourth quarter fiscal 2017. This outlook embeds a slower start to the fiscal year, followed by a stronger second half and is supported by the visibility of our record 12-month backlog.

Additionally, this outlook incorporates an expected drag of about 0.5% from directory, which we anticipate to continue to decline in fiscal 2018. We anticipate our non-GAAP operating margin to be within a new and improved range of 16.5% to 17.5% in fiscal 2018. The midpoint of which is about 10 basis points higher than the midpoint of our prior range. This outlook reflects our consistent effort to deliver permanent internal efficiency improvements and is achievable despite our high level of project activity and ongoing investment for long-term growth. Additionally, we expect our quarterly non-GAAP operating margin to fluctuate at the higher end of this range in fiscal 2018. We expect our non-GAAP effective tax rate to remain within the same target range of 13% to 17% for the full fiscal year 2018. We expect the first fiscal quarter diluted non-GAAP EPS to be in the range of $0.94 to $1. Our first fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 146 million shares and the likelihood of a negative impact from foreign currency fluctuations in non-GAAP net interest and other expense.

We excluded the impact of incremental future share buyback activity during the first 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 4% to 8%. Our full year EPS outlook does factor in expected repurchase activity over the year.

To assist you in your modeling, we expect to generate free cash flow of roughly $400 million in fiscal 2018, taking into account incremental capital expenditure up to $100 million associated with the multiyear development of our new campus in Israel. Normalizing for this capital expenditure, we expect free cash flow of roughly $500 million in fiscal 2018, approximately 100% of which we plan to return to shareholders through our ongoing share repurchase and dividend program in fiscal year 2018. Finally, we expect the total return we deliver to shareholders will be enhanced beyond the earnings growth outlook, by our dividend program, which if the new quarterly dividend rate is approved by shareholders at the annual meeting in January, would yield about 1.6% in constant -- I’m sorry, on current share price. Therefore, we expect the sum of our diluted non-GAAP EPS growth plus the dividend yield to equate to total shareholder return in the mid to high single digits for the seventh consecutive year in fiscal 2018.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ramsey El-Assal from Jefferies.
This is Damian on for Ramsey. So I'm hoping you can help us think through some of your assumptions in the fiscal ’18 guide. So specifically, how much conservatism are you assuming out of AT&T? Did you kind of base your assumptions in a fair amount of conservatism? And then is that really what’s weighing on the guidance here? Or are there some other elements, too, that we should be thinking about?

So Damian, thanks for the question. As I said, it's the largest component that is slowing us down. And there's a lot of moving parts in the overall plan of the company, but if I need to call out one, it's definitely AT&T. I don't have a measurement for how conservative we are. We are usually prudent people, but you need to realize that some of the things are really evolving as we speak. AT&T has, you read the news as well as we do, they have early warnings a couple of weeks ago, they are going into some readjustment of broader expenses, and we expect everybody to be slowed down by that. So we have to take into account. And that's on top of the overcloud on expenses in general as we explained in the prepared remarks because of Time Warner. And you read the news again, every 2 hours maybe, there is some new information about this. So we have to -- with this type of dynamics, it would not be responsible on our side to just assume that everything is as usual. On the other hand, we believe, as we said, that the strategy for AT&T is the right one. They would find ways to overcome some of these specific difficulties in their business. And as a result, we believe that since we are providing for many years and can provide for them many years to go, relative to AT&T, we believe that the fluctuation will swing positively in the future as well. So the end result is that the rest of the company which is robust and growing actually nicely will compensate some of it, not fully. And as a result, we would start the year with a flattish quarter and then will accelerate as time goes by. But the #1 factor is AT&T. It’s combined by these 2 factors that I just mentioned.

Great. And I guess you'd kind of started talking about this. But it seems like the other parts of the business are firing along pretty nicely. I'm hoping you can talk about the drivers of international performance. It looks like it rebounded pretty nicely in the quarter here, and you called out a few nice wins. But is this due to anything in particular? Or is there -- have you seen more of a broad-based return to demand in Europe and the Rest of the World?

Look, I think it's many things together. I cannot really pinpoint one specific thing. We are definitely proud of the fact that we see Europe growing in 2018. That's mainly because of the product superiority and maybe a few other things that are going on. In the Rest of the World, both in APAC and in Central Latin America, we see demands to our product and services, and we see managed services and we see -- and that's before we actually see the new engines kicking in into the Rest of the World, which could be the NFV and other things that I'm sure that will follow in the following years. So I would say that the growth we're seeing with the Pay TV in North America, with Europe in general, and Rest of the World, both ends of it as we call it, are due to many factors and not one. I think that we invested properly in the growth engines, and they are just firing properly.

Our next question comes from Shaul Eyal with Oppenheimer.

Two quick questions on my end. Eli, with respect to the commentary -- your commentary on M&A and the M&A strategy and given that, on the one hand, you’re upping the capital utilization and what you’re returning to shareholders. Is it the fact that there aren’t suitable targets? Or that there are some suitable targets, but in terms of valuation given where markets are, it is slightly more challenging, or maybe both?
So Shaul, thanks for the question. As a matter of fact, it's both. We have -- I think we have been known to be very disciplined and not be carried away. And some assets are just way too expensive, that it cannot be justified, and we would not do it, just to rush into it just to spend the money. And in other cases, it's mainly timing. We are very, very disciplined in terms of, first of all, analyzing the strategy, coming out with a strategy, and then try to see whether we are going to develop or maybe cooperate with someone or buy assets to accelerate our growth. So the end result is that the timing and, in some cases, the pricings were such that we did not do much in 2017. So based on our so-called agreement, we will -- we can accelerate the buyback. But as soon as we have additional M&As, I believe we'll do both in '18. We'll do M&As and accelerate buyback. And if we'll have bigger M&As in the future, we'll probably maybe slow down buyback a little bit. That was always the philosophy and the policy. And it's just a matter of timing and some valuations. And the only thing I'm proud of is that we are disciplined, and we are not just throwing money just for the sake of doing M&A or maybe growing the company in an awkward way. So we will keep on choosing the targets. There are targets, not that many, but there are targets in all these areas, in technology, in services, in -- geography penetration could be an angle, maybe even consolidation when the pricing is right. And so there are targets. But the end result of disciplined execution of our strategy through M&A ended up with very little in 2017, and that's the nature of the beast. You don't -- I don't think that you want us to just rush into these if they're not really reasonable.

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

Absolutely. That sounds completely fair enough. Absolutely. And Eli, with respect to NFV, I know this is a topic we've discussed a lot over the course of the past 12 months probably, what's the current update? Again, leaving the flat for example -- leaving the flat for a second, just the issue, the general issue at AT&T that are impacting 2018 guidance to an extent. But what else is happening with NFV? Again, we have seen over the course of the past year a nice ramp of AT&T, Bell Canada, Orange Poland. What's the pipeline in that respect? What does it look like?

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

So we keep seeing the pipeline growing. Actually now, it extends to other regions of the world, which is very nice. It's slowly but progressing well. The fact that we now have use cases that we can demonstrate in the MSO, in the cable industry is very, very encouraging, in my opinion. I know we announced this project with Comcast, which is now expanding, and we have other projects there. So the pipeline is growing. It's just that it's relatively slow, and I think that we'll see that for a while, and then I think it will accelerate growth, if you ask me. The other thing I would say is that we are now seeing what's expected, but we are now seeing the first wave of services, and I alluded to that in my prepared remarks. The services around NFV, regardless to product on updates and not on updates are very important, and we have the right SKUs and the engineers to support services. And we believe that, that will be, by itself, a very important growth engine within the NFV field. And there is a third component which we did not touch on yet but we are not necessarily excluding, is to integrate certain small VNFs, people that are bringing their component structure underneath the NFV control plane. That's something for the future. So altogether, we see nice progress. I think it's just slow, but that's my opinion.

Operator

Our next question comes from Jackson Ader with JPMorgan.


Eli, you've mentioned that this is not the first time that you've seen some tightening of the purse strings, I guess we'll say, at AT&T over the last 5 to 10 years. And yet you've still been able to grow the relationship through that time. So what have been some of the catalysts? Or what has happened when you've previously seen spending patterns like this that actually ended up making you grow within that particular account?
Eli Gelman - Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd

So each one of them is actually quite specific, and we'd have to go through the details, and we don't have the time right now. But suffice it to say that some of them has been primarily related to an M&A or anticipated M&A. So we saw this type of wave, and then the M&A was done like DIRECTV, okay, it takes some time, they go to the drawing boards, they decide what to do. We are part of the enabler in these cases, and we end up with a project that is related to an M&A, that could be one example. Other examples is just executing on AT&T's growth strategy. In the last 2 or 3 years, they had a growth strategy that included Pay TV, so they started with their own company and then they bought Cricket. We actually won the entire transformation of Cricket to Amdocs-based BSS back-end systems and then to Managed Services components of this. They went south of the border to mainly Mexico. And we have been the provider, enabler of this transformation of Mexico. The domain 2.0, the NFV, is another example. So we are relatively versatile in the level of and type of skills that we have and what we can actually offer AT&T as a strategic partner. And usually, we just follow their strategy. So that's why we believe that directionally, they are in the right strategy. They probably will add certain things and do certain things, and hopefully with that, we will have new opportunities to prove ourselves. AT&T does not give us any discount in terms of winning anything. We work diligently on every one of the projects. But in the past, we managed to usually provide additional services or additional product set or additional capabilities that were not part of the previous capabilities of Amdocs. And again, because we keep on investing in these domains and these new growth engines, usually, we are able to go to AT&T and say, why don't we help you with these new domains and so on and so forth. So I would say these 2 components are the majority of the reasons why we managed to be relevant and win businesses in AT&T despite these fluctuations. The other thing I would say it's actually quite normal to us with any customer, anyone that you'll take, you can choose anyone you want, to have 5% to 10% fluctuation plus/minus during the year. It's just a few percentage in AT&T, because of the size of it, it turns out a lot of money. And therefore, we need to be more prudent, and we have to bake it into our guidance and not rush into -- be too optimistic or ignoring it.


Okay. That's helpful. And then, Tamar, for my follow-up, how much flexibility do you feel like you have in the expense base, if you are surprised on the upside in AT&T's discretionary spending or the downside?

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

We've always been very diligent in terms of how to manage these kinds of situations, both in terms of continuing to -- on a regular basis, irrespective of those fluctuations you're mentioning continuing to push all the time with capabilities that will enable us to improve the cost structure, which is what we are doing as we speak to improve by small step functions. But yes, the overall vector as we see over the years have been an improvement of the operating margin. Now when we are seeing situations of fast change, this is where we may take decisions to slow down also some discretionary spending that we have. I'm talking about areas that are more like, for example, in R&D, et cetera. Historically, we're trying to get away from doing that because we always feel -- assuming that those restructurings are short-lived, we want to continue in investing in the future, and if you look for example, even in a very tough period like 2008, 2009, we made actually conscious decisions to invest heavily into new domains, to invest heavily into new regions. Back then was the beginning of our investments in the Rest of the World, for example. So it's really depending on the situation and how lengthy we think the challenging period will be. We don't feel that currently there's a need or a call to change the level of spend. Actually, we are planning to continue our R&D investment at the rate of 6% to 7% of revenue as you've seen us in the past years.

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

In a way, I would say that we have several, let's call them, potential matter, they are fine potential matters. So we can tweak it gently without moving -- making short term -- turns and turning the company upside down. And in recent years, we showed -- in many years actually, we showed quite a disciplined usage of this potential matter if you like to call them this way.

Operator

Our next question comes from Ashwin Shirvaikar with Citi.
Ashwin Vassant Shirvaikar - Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst

Eli, this outlook seems like kind of the quantitative equivalent of your comments last quarter. So I guess, first of all, appreciate you giving a heads-up last quarter. The question I have is if AT&T revenues are flat instead of down in fiscal ’18 or fiscal ’17, what would your rev range look like instead of 0 to 4%? And then do the AT&T actions also affecting like NFV? So I’m trying to get a sense for whether these strategic projects are also affected. Or is it primarily a discretionary slowdown? So if you can give that break out of discretionary versus nondiscretionary in that base.

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

Yes. So first of all, yes. Last quarter, we’re starting some of it. We extrapolated some of it, and now we are quantifying it because we have to as part of the guidance. So it’s not like a huge surprise, and we see the direction, and you read the newspaper of the results of AT&T in general, in growth and all of that. So it’s all combining into some pressure on AT&T that translate into slowdown in discretionary expenses, and we’re just quantifying it right now. And we shared as much as we can last quarter, and now we’re calling it in numbers. In terms of the -- it’s hard to give you the high-level extrapolation of what if AT&T will be flat. Obviously, if AT&T will be flat, we’ll trend towards the higher end of the range. Where exactly we would have been landing, it’s really hard for me to calculate right now. But as I said, this is the #1 contributor. It’s not the only one, but it’s the #1 contributor by far into where we land in this range around AT&T. And in terms of the -- where are the cutting -- I actually -- it’s really work in progress. I believe that some of the things that they may be think about guiding, maybe they will release and vice versa. So it’s still a work in progress. Look, their virtualization project, the NFV in general, it’s a very important project for AT&T. I think it’s part of their strategy to improve their own operating margins and so on and so forth, and we are definitely a major part of -- the major part of this engine. And as I mentioned before, we see some services opportunities, not only the product development opportunities in the NFV. So I don’t know exactly whether that will slow us, slow the NFV project slightly or not at all. Or maybe even -- maybe 6 months from now, they will decide to accelerate it. But in general, we see the state of mind of savings, across the company, in every aspect that you can think of. So it’s the mood. We are one of the people that have probably the highest versatility in terms of what things we can offer from new technologies like NFV or aia intelligence, our artificial intelligence engine, all the way to managed services and savings. I mean, we are one of the best shops that understand IT inside out in the domains that we’re talking about. And we can take a piece of business of AT&T and just run it better. So that’s providing services and savings. But I’m just giving you different examples because we don’t know the exact results. The entire wave in its -- actually is evolving in the last few weeks, including the Time Warner announcement. Today, the CFO of AT&T said it’s not updated, it’s not clear. The DOJ is saying they want AT&T to divest CNN. I mean, like every 2 days, we have another information. And it affects, of course, the organization. And if we compound that with the fact that they’re on DIRECTV and mobility and other places, they have some [different entities over the world], you have a state of mind that we are basically trying to depict in our prepared remarks. So I really cannot give you data points on each one of the field. Enterprise versus mobility versus DIRECTV versus NFV versus -- but we are involved in all of the above.

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

Just some additional color on that, Ashwin. If we look at 2017, AT&T as an account grew 4%, so in line with the overall company growth rate. And as you can understand, we are actually seeing the rest of the business, given the slow [actions] of AT&T accelerating. So overall, yes, it’s a major drag. It’s a customer that we will serve of our business, so obviously, that has an impact to the overall company. But if you look on the rest of the 2/3, which is the majority of the business, it’s actually performing well going into 2018.

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

Understood. And then I heard you guys talk about T-Mobile. So does that announcement basically reverse the announcement from a few years back that they would move prepaid and some other pieces to Ericsson, which of course we know that Ericsson seems to have failed to convert. Or is this an uptick on ongoing trend from the many details there that you could potentially share?
Eli Gelman - Amdocs Limited - Director, CEO of Amdocs Management Ltd and President of Amdocs Management Ltd

So Ashwin, our relationship with T-Mobile is very strong, has been stronger and stronger in the last couple of years. None or very little of the plans that they had originally have been materialized, and we're just supporting them in their carrier 1, 2, 3, 11, whatever. This specific project that we are probably announcing is on top. It just was not in the cards at all before. It's a nice thing because also it's a leverage, it shows the integration of strategic assets that we are buying. Brite:Bill is an acquisition we have done a few quarters ago, and now it's very relevant to all-time customers like T-Mobile or like British Telecom and others. So this is very important for us to demonstrate through our sales force. But in general, these new engines are blending in to our CES portfolio. But the specific one in your question about T-Mobile, we're not in the cards in the last couple years at all. It's just a new offering that we have. They love -- they liked it, and we think it will be actually quite important for them. So T-Mobile actually is investing quite significantly in the customer experience in many dimension. This is another example. And I think that it's in correlation to their success in the market as a wireless and multiplex company.

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

Understood. And a quick question on size of buyback you have assumed to get to the 4% to 8% range?

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

So as we said, we are talking about 100% of free cash, but just to be clear, I'm talking about the $500 million that is excluding the special capital expenses that we project to have on the campus. But within the range, of course, there could be more than that, and we will adjust from quarter-to-quarter or so, given the M&A expectations as well as the performance of the market overall. But in terms of the cash performance when we're looking on the overall business model, the projections of specifics for this year, et cetera, we continue to put a strong focus on the earnings per cash conversion and to make sure that we are meeting the overall cash return to shareholders. We've increased dividends. We did some acceleration in the share repurchase. But it's not going to be just, let's say, anything out of the normal things we've seen in the past couple of years. So in some years, we've been over 100%. In some years, we've been 90%. This specific year, we feel we can do at least 100%.

Operator

(Operator Instructions) Our next question comes from Tom Roderick with Stifel.

Matthew David Van Vliet - Stifel, Nicolaus & Company, Incorporated, Research Division - Associate

Matt Van Vliet on for Tom. I guess, when you're looking at the overall NFV and ONAP market that you're targeting, I know you commented that maybe it's progressing more slowly than you think it should. What are some of the key drivers that are losing the potential growth there or broader adoption? Are there other competing standards out there? Are some of the U.S. carriers hesitant to fully back something that AT&T is sort of generating the most attention around? What are you seeing causing some of those limitations in uptake?

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

So Matt, it's a wonderful question. It's actually many factors. I can think about at least 3 major things that are slowing us down. First of all, the net, the network of providers declared -- or not declared, they are trying to slow it down as much as they can because every piece of software that someone is selling is eating away from their boxes, let's put it bluntly. And some of them are quite powerful. So that's one thing that -- and they create [fad] and this and that. And for about 1.5 years, they said it's not feasible, and then they say it's not commercially viable. It's not -- we proved all of them wrong. It is feasible. It is doable. It is in production, but it still affects the market. The second reason is that you need to understand that we know well how to get to Point B, and we can demonstrate what a virtualized network would look like. But a lot of these companies are afraid of the journey from A to B. Right now, they are in a certain state, and you need to understand that a lot of it is a mental state of mind of these carriers because for the last 25 years, they used to buy boxes and just install them with a lot of technicians. And we are talking about something that does
not require a lot of technicians and do everything in a matter of seconds. It’s like going from the Stone Age to 2020 in one. So we need to deal with a lot of state of mind changes in -- everywhere in the world, okay? So they have -- like always, they have early adopters. AT&T would be one. Comcast would be one. But they have followers. But this is kind of the internal dynamics of some of the carriers. And the third one is that we are -- we cannot come with all the use cases in one day. So we come up with a use case, and then another use case, and another use case, and some use cases are good for wireless companies, and some use cases are good for wireline and broadband, and some use cases are good for enterprise business, and some use cases are good for residential. And every one of these companies have their own angle, what they want to test it with. The beauty of it is that we are becoming, as time goes by, with more use cases, and as a matter of fact, even the 3 or 4 customers that we mentioned today, Orange, AT&T, Dell -- each one of them actually have a very different use case. The beauty of it is that, okay, we now have 4 use cases that we’re going to the market with. Tomorrow, we’ll have 8, but the number of people that go on the same use case is still relatively low. But again, I don’t think that anyone can stop this trend. I think it’s here to stay. It’s a matter of --like with most other fundamental changes of a market, it usually takes longer, so the run rate is longer. Once it takes off, usually it takes off faster. We are definitely one of the most relevant players in this space. And again, as I said, if it was up to me, I would take more calculated risk, but some people in the customer side need to make this call. And the other thing I would say is that every time we have an opportunity, we showed that what we said is actually being done or better than what we said. So we see a lot of accumulated data points that we actually can materialize this transformation. So that’s kind of the color I can give you around that.

Operator

Ladies and gentlemen, thank you for participating in today’s question-and-answer session. I would now like to turn the call back over to management for any closing remarks.

Matthew E. Smith - Amdocs Limited - Secretary

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

Operator

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

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