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PRESENTATION

Isabella Schidrich - *Nasdaq, Inc. - MD*

Good morning, good afternoon. My name is Isabella Schidrich here at NASDAQ. It's a great pleasure to welcome you all today.

I'm delighted to be joined by Tamar Rapaport-Dagim, Chief Financial Officer and Chief Operating Officer at Amdocs Limited. Tamar will discuss and present Amdocs to you.

You have the opportunity to send questions through the question section on the right-hand side of your screen. We will cover these questions at the end of Tamar's presentation.

Now without further ado, let me hand over to Tamar. Tamar, please.

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

Thank you, Isabella, and hi, everyone, glad to have you onboard for this session. We try to give a brief introduction to Amdocs and share why we are excited about the opportunities we see in the market and what does it mean for us. And to you as investors, what does it mean to you in terms of the investment thesis, and we'll be happy to take any questions at the end of the session.

So who is Amdocs? And thinking about kind of a brief introduction, we are a global leader in our domain. We are providing software and services to enable our target customers, which are the communication and media companies of the world, as they modernize, automate and digitize their processes, their touch points and their capabilities serving their customers. And their customers could be the consumers, small businesses, large enterprises, and we are providing that with unique capability that combines accountability across software products, which is our software offering, cutting-edge software technology, cloud native, et cetera, et cetera.

We are providing delivery capabilities to take this software and actually put it into the live and production environments of our customers. What we call project, where we actually help to install and deploy these software products. And then we also provide our customers with operations capabilities, helping them run those systems and support those systems through the product life cycle, through different changes and dynamics that are happening in their business. And the model we call either Managed Services, which is a multiyear agreement or ongoing support, which is done end of short-term engagements.

We have a global presence across 85 countries with the workforce base of 27,000 employees, which is also spread around the world. Our market cap is around $10 billion, and we've been a public company over 20 years. We are touching and serving billions of transactions a day and billions of end users a day. So we think about this high scale, very dynamic industry that we are serving, and you understand the challenge of remaining and continuing to invest in innovation, a challenge, we take gladly and keep that market leadership for many, many years.

When we look on our global footprint, you can see in the globe, we have many logos. Again, not all of the customer names are here. We're serving hundreds of customers around the world. But you can see that whether it's North America or Latin America, Europe or the further part, eastern part of the world, in APAC, we have very meaningful customers that we are serving, ones that I assume are familiar to many of you.

So if we start in North America. I was thinking about the big guys like AT&T and Verizon and T-Mobile; and on the cable and broadband side, Comcast, Charter; DISH on the satellite side; with media companies like Warner Brothers.

In Europe, we're serving large groups such as Vodafone, Orange, Three, Hutchison Group, Sky Group. In LatAm, we are serving dominant players like Telefónica, like America Movil. And in APAC, large dominant groups such as SingTel with many affiliates across the region, Axiata Group, Ayala Group, et cetera.

So we are definitely entrenched in many customers around the world, but yet see a great opportunity to expand, and I will elaborate about that in a couple of minutes.

When we look on the investment thesis and try to grasp -- crystallize how you should think about the company. So first of all, a market leader that continues to invest in innovation and ride the relevant industry investment, multi-cycle trends that we are identifying. Then translating that into a healthy recurring business that drives, in turn, good visibility and recurring revenue and ability to grow from that additional new domains, additional adjacent markets and growth opportunities. Margin stability that is converted in turn to a robust free cash flow. We have a great earnings to cash conversion. And all of that is added up to a strong earning per share growth, added by a dividend deal that is giving a consistent high double digit return.

When we look on the market leadership, we're recognized by all the industry analysts, whether it's the Magic Quadrant of Gartner that is recognizing us as the #1 in domain, such as the integrated revenue management or the OSS, which is more of the technical names of the systems that are underneath the capabilities we provide our customers or whether it's analysis masons and many others. So we've been recognized as the market leader in the domains we're serving. And of course, at the end of the day, as we see it translated into POs and signing with customers and the feedback we're getting from customers.

When we are looking at the key industry trends that we are leveraging and enjoying, those are key trends that are -- some of them started several years ago like the digital capabilities, obviously, accelerated by COVID, all of us feel that. So the service providers and the communication media side starts to invest in digital capabilities and in making a seamless -- a great experience to their end customers already several years ago and accelerated these investments following the realization of the needs that came with work from home, capabilities and expectations to consume things in a different access points, different channels, but in a great experience across the different channels. And we're providing very importantly, not just the user interface. More importantly, it's the full flow all the way to the back-end system that enables the service provider to really transform its business to be a digital one.

Then we have 5G. Everybody is talking about 5G. From our point of view, the opportunity in 5G is, to a small extent, in the planning and design of the network where we have a business. But the bigger opportunity is enabling our customers in monetizing and bringing the returns of the 5G huge investments in the network and the spectrum. We are providing them the engines. We're providing them the tools to actually come and launch new services to market, new ideas, how to monetize that, how to define that and launch it quickly from a marketing idea all the way to the field into their customers.

Then we have the cloud, which is a very important driver in the market. You may think of it, cloud has been a journey that happened a long time ago. So what's new? To take into the cloud more complex mission-critical applications, such as the one we provide our customers, is a journey that is, I would say, probably 10% into the opportunity that we see.

So the opportunity ahead of us is still huge. We are continuously seeing how we are positioned as a company, as a market leader that is already incumbent in many customers. And with a great product that we come to market with, that are all cloud-native, we can enable our customers to take that journey to the cloud in a smart way, I will expand on that in a minute.

Media is obviously a growing opportunity that we see. And by media, I'm talking about entertainment that is becoming more and more related to how people consume communication. So again, here, it really depends on some differences we see around the world. Actually, in the U.S. market recently, we've seen some divergence between the communication and between entertainment through different carve-outs that have been done by AT&T of Warner Brothers, Verizon of Yahoo, et cetera. So the dynamics there are different.

But in other regions in the world, like in Europe or in APAC, we are seeing some of the communication service providers wanting to add entertainment capabilities and there is more of this convergence that is happening.

And on the network -- the network domain. We are continuously developing the next-gen OSS that will fit the drive of the networks to be much more software-driven, to enable actually to take those networks, monetize them better and then connect it to the ability to actually launch services to the market and manage all those virtual and physical network elements in an effective manner.

So thinking about the cloud and the Amdocs role in the journey to the cloud. So first of all, our software products have been cloud-native and fit to the cloud environment with every new release that is going into the market in the last couple of years. But then it's about how we take every customer and every application that is already installed in the customer environment, and actually enable the customer to move into the cloud, because not everybody wants to break out existing software applications and reinstall and deploy the new ones. So we are helping our customers design a specific journey that is right for them. We can help them combine between deploying certain capabilities with new applications, taking existing applications and actually move them to the cloud. So yes, maybe they cannot reap the whole benefit of moving to the cloud by taking a legacy application and migrating it to the cloud, but they can definitely use a lot of these benefits.

And we are tailoring these capabilities customer by customer. We have a mindset of no customers left behind, and we'll help all our customers to shift to the cloud, and definitely a great opportunity also to penetrate new customers with these strong capabilities.

We've also won a couple of interesting deals. We are helping customers migrate to the cloud applications in our domain expertise that are not based on the Amdocs product. For example in AT&T, we have a major deal helping them to push the journey to the Microsoft Azure cloud with many applications. And we've also strengthened our capabilities recently around the cloud domain with additional acquisition of a high-end consultancy firm called Sourced which is specializing in designing those journeys to the clouds and helping our customers in their migration and design processes.

And we have great partnerships with strategic cloud hyper scale companies such as Microsoft, AWS, et cetera. So when you're looking on how all of that is translating into the financial metrics of the company, the unique business model that we have of selling our software products, deploying it to the projects and then continuously working with the customer in an ongoing support mode, all the way to a full-scale Managed Services when we actually operate the systems for them, is generating a very healthy recurring revenue.

So you can see on the left-hand side, a metric that we publish every quarter called 12-months backlog. If you look on the 12-months backlog entering the fiscal year, we typically already have visibility of 80-plus percent going into a year.

When you look on the right-hand side, you can see why we are excited in talking about acceleration these days. We have seen a very nice acceleration in the 12-months backlog, which is a leading indicator to our revenue progression. And you can see that in the last several quarters, our growth of backlog -- and again, pro forma because we carved out a certain business and sold it as of January 1. So pro forma is giving us the real trend here. 9% was the 12-months backlog growth year-over-year in the last reported quarter ending March.

So again, while this is a leading indicator, it doesn't mean that exactly our revenue growth in the next 12 months will be 9%, because of course, we will sell more things. And obviously, we want to see a continued focus on closing deals. But definitely, this is a great leading indicator that shows why we believe and why we have the confidence that we are accelerating growth as we speak.

This visible and highly recurring revenue stream is also relying very nicely on the model that we developed over the years of Managed Services, where we are actually supporting our customers in running the systems for them. And you can see that Managed Services engagements already support about 60% of our revenue.

And what is Managed Services? And why it's growing so nicely? First of all, more and more customers understand the value of Amdocs actually supporting and running the systems for them under a committed agreed KPIs. The service level is obviously something we commit to. The cost structure should enable them to see savings and predictability of the cost structure. And by being their partner on a daily basis, obviously, we are there to understand the different needs and pain points that they have and come with many ideas how we can improve the environment on an ongoing basis. And by the ones actually providing the software, we can actually put a lot of these improvements into the core products that we upgrade.

Then many new customers usually start with a project, some kind of what we call transformation project. They license our products, they deploy it into production. Not always they commit upfront for this Managed Services model because it requires a high level of trust, a multiyear engagement. But oftentimes, what we see is that even customers that start with us in the transformation project, they expand the relationships later on to a full Managed Services.

A recent example in -- from the last year or so was Charter, the Spectrum Mobile brand of Charter selected our systems to be the ones on which they are going to modernize and build their capabilities. And then several quarters later, we saw the Managed Services model of the Charter Spectrum Mobile as an add-on.

There are other customers that have been existing Managed Services customers in which we expanded to a bigger scope. So for example, Globe in the Philippines is a long-term Managed Services customer. Globe is a leading carrier in the Philippines country, and as part of our modernization of their business segment recently, we've also expanded the Managed Services scope to include that as well.

And we also have occasions in which we sell originally the deal, including the transformation project and the license of our products with the Managed Services upfront. And you can see at the lower right-hand side, the chart that we have growing demand for this model of Managed Services with key customers adopting it. Just the recent 2 years, you can see the examples of A1, which is in Europe. You can see the example of Globe. You can see the example of the recent year of very important strategic deal with T-Mobile. We are building now the new step for T-Mobile on which they will run their future consumer and business segment, and that is coming with the full-scale Managed Services on which we will do all the cloud ops and all the managed services of their systems.

Charter is another examples we have given. So we are very happy to see both existing customers expanding their Managed Services capacity with us as well as new customers that are adopting this model.

We are also continuously diversifying our business around the world, both geographically and into new logos. You can see that over the years, Amdocs continuously expanded from the original strength that we had in North America. And about in 2010, we started a major international expansion that continues from year-to-year where we have very strong presence now also in South East APAC, in Europe, and we are focusing on continuously grow all regions. So it's not that one region is growing on account of the other. Actually, our prediction for growth in 2021 fiscal year is based on growth in all the 3 key regions we are serving. North America, Europe and what we call Rest of the World.

We are continuously expanding into new countries. Doesn't mean necessarily those are exotic countries. We've also have many new countries that in West Europe, for example. New for us. So countries such as Ireland, Italy, Spain, in which we have now a meaningful business, and just several years ago, we had close to 0 business.

We're expanding into many new logos. Even in North America, which is a region we serve for many years, we are expanding into new logos in the last couple of years. Verizon is an example. A key logo into which we expanded and already sold second deal just in the last year or so.

So we are very happy to see expansion into those new logos because this is a great opportunity to now establish relationship that can last for many years.

Usually, when we enter a relationship with a customer, we bring great value, of course, and we want to see this relationship is last -- to last for decades because we continuously invest in innovation, and we can bring all along more and more new ideas how to support the customers.

So the customer concentration overall diminished from about 75% for the top 10 customers to 65%. Although the change may not look as meaningful, underneath the hood, there is actually a very interesting change. Because in 2010, the 75% of the top 10 customers were primarily names from North America. In 2020, the 65% of the top 10 customers already include very meaningful groups from all over the world, like Telefónica, like SingTel, like Vodafone, et cetera, et cetera.

How is all of that translating into margin? We have a very consistent margin expansion strategy. So you will not see Amdocs shifting from 17% to 22% in over 1 or 2 years. But you will see, over time, a very healthy extension of the margin while continues to expand, while accelerating the growth in 2021. We are continuously enhancing R&D investments, and in fact, we've been tracking at the high end of our guidance range for all this period that we are showing of many years.

We've increased our margin expectation in 2021 to be at the high end of this long-term range. So we are planning to be at around 17.5% of operating margin in fiscal '21. The result of the ability to -- its ability to increase this margin is a combination of the fact we carved out a business called OpenMarket that we sold, that was a business performing under the corporate average. And many operational excellence activities that we've done as a company that enable us to improve the margin, again, while actually increasing R&D investment as a percentage of revenue.

This margin is turning into a healthy conversion rate of earnings to cash. Over the years, we are converting at par, more or less. But there are years where we invest in working capital, there are years in which we reap those benefits. Specifically in 2021, we are expecting earnings to cash conversion rate of around 130%. So as you can understand, this is not a sustainable metric to be at. But you can see that over the year, some years, we've been tracking at around 120% conversion rate. Some years, it was 90%. So it changed from year-to-year, and we are very transparent about our expectations going into fiscal year and during the fiscal year.

But eventually, what you need to take away from this slide is that the business model of Amdocs and the high-quality customers that we serve, enable us to convert earning to cash more or less on par over time.

We also have a very strong balance sheet with ample liquidity and cash. We have under our liquidity definition around $1.7 billion, which is a combination of the cash balance that we have as well with the availability of a credit revolver line of [$500 million]. We have raised public bond in June 2020, taking advantage of the great low interest rate environment that was existing at that point. And that cash is there to serve us, to grow the business and invest in our future. While over the years, we are returning the majority of the free cash flow generated from the business back to the shareholders in the form of share repurchases and a dividend.

We've launched a dividend already many years ago. Every year, we are raising the dividend, double-digit raises from year-to-year, and the dividend yield is roughly 2%.

Just in the second quarter of fiscal '21 that ended in March, we returned to shareholders roughly $400 million of cash. So this is a relatively high number because it included also a consideration received from the divestiture of OpenMarket. But even if you take out this return of the, let's call it, the net consideration from the OpenMarket sale, you can see that on a consistent manner, we are returning the majority of the free cash flow from the business, the regular business activity to shareholders over the years. So if you look in the last 5 years, about $0.5 billion a year was returned to shareholders in cash.

When you look on how our earning per share is performing. So our non-GAAP earnings per share and again here for specifically '21, we're talking about the pro forma metric taking into consideration, we want to prepare apples-to-apples following the carve-out of OpenMarket. So we are talking about a 9% earning per share, which is significantly better than what we've seen in the last years. We have enjoyed in this earning per share growth, both the top line acceleration that we expect in this specific year, a pro forma revenue growth, constant currency of 6.5% midpoint, which is more than double what we've done before. And of course, the margin expansion, to a smaller extent, that we talked about before.

So all of that is translating into the current outlook of revenue growth, top line of 5% to 8%. The non-GAAP operating margin. We expect to be at the high end of [17.5%]. Earning per share growth of 9% and expected total shareholders return, if I add up the earning per share growth and the dividend yield, in the double digit.

So to wrap up -- sorry. So what are the key takeaways you should have from this session? So we are a global market leader in our domain serving the largest communication and media companies. We are continuously leveraging all the multiyear investment cycles, and we are very relevant with our offering to those investment cycles in cloud, 5G, digital, et cetera. Full accountability model, where we provide the best-in-class software products, deploy them into the success -- deploy them successfully into the environment of our customers and take responsibility of the desire us to do so, either a full-scale Managed Services model to operate those systems and continuously enhance them. This translates into a highly recurring revenue base, a good predictability on our business to come, and that, augmented with the acceleration we see in the pace of signing new deals as indicated in our 12 months backlog growth, is giving us the confidence, of course, with the pipeline we see as well in terms of potential deals to be closed in the future, giving us the confidence of the growth acceleration that we guided the market for '21.

My last point is that within '21, while we're talking about an overall year-over-year growth of midpoint 6.5%, actually, the second half of the year is going to be much higher of that average for the full year. So we're definitely in a path of acceleration. Both year-over-year and also within the year, we are going to end the second half in a much higher level.

So thank you very much for listening, and let's open it up for the Q&A.

QUESTIONS AND ANSWERS

Isabella Schidrich - *Nasdaq, Inc. - MD*

Thank you, Tamar, for all the great insight, and many congratulations on the wonderful performance of Amdocs. And also congratulations. You did such a wonderful job. We haven't received any questions.

So I have one question for you, if I may. Where do you see the -- maybe the top 1 and 2 challenges for Amdocs within the next 2 to 3 years?

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

So I think the great thing about identifying those growth drivers and being relevant for so many of them is, of course, we want to leverage that opportunity right here and now. And expand as much as possible and as fast as possible within existing customers and into new logos. So come very fast. And that's why also, by the way, we decided why being already the first in market and why being recognized as the leader to accelerate the R&D? Because we feel there's a great opportunity now, and we should leverage that opportunity, and to come very fast with great capabilities that the market is in demand for.

I would say the second challenge is -- always come with great growth, is the challenge is how you scale up. I think we are well equipped on that. We have a global delivery model where we have the flexibility to balance resources and move resources around because the nature of our business is such that oftentimes, we see big projects running in a certain customer. And then naturally, that project is coming to its end, and we are ramping up a new activity in another customer, another place in the world.

So our global delivery model is giving us this flexibility in terms of expertise, in terms of the resource mobility, et cetera. But at the same time, when you grow faster, of course, you want to recruit, train, onboard effectively and in a productive manner, many employees and we are very busy, glad to be busy doing that all over the world these days.

Isabella Schidrich - *Nasdaq, Inc. - MD*

Thank you, Tamar. There's one question from the audience. How much has M&A contributed to your top line growth over the years? And how much was driven by organic growth?

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

Thank you for the question. So it depends on the year. I would say, it's probably ranging between 1% to 1.5%, depending on the year. So specifically -- and usually, what we do is every time we come with guidance, we talk about the contribution of the recent M&A into our expectations.

So specifically in 2021, we have included roughly 1.5 points for M&A entering the year. Based on the great acquisition of Openet that expanded significantly our 5G offering with charging and policy. And recently, with a combination of 3 small acquisitions we see a, I would say, less than 0.5% additional contribution. So the improvement in guidance we've actually came out with at the end of the second quarter was 1% better than the prior guidance. And out of this 1%, we said that 0.5% is coming from M&A, 0.5% is organic.

So again, lastly, I would say, if I need to average probably 1% a year, is coming from the M&A. Having said that, I think it's important to understand that our strategy around M&A is usually not just okay, let's add more companies and expand and scale up. It's usually start with -- always starts with the strategic process of the company, and then the type of M&As will augment either product acceleration and offering acceleration.

For example, the case of Openet was such that we wanted to come with the best product to the market and in a faster manner with 5G charging and policy. It could be expanding into an adjacent market. For example, when we decided to expand into the 5G network planning and design, as we saw that as a coming opportunity. We've done the acquisition of TTS Wireless back in 2019. And it could be, but more rarely some kind of a consolidation move, like we've done in 2015 with the acquisition of Comverse, which was a direct competitor, very complementary to us in terms of where they operated in the world, which was much more in LatAm, in APAC and a bit in Europe. And that was a great acquisition that gave us a foothold into many new customers on top of which, it could come with a very broad breadth of offering -- very strong breadth of offering and to sell much more into the ex Comverse customers. But we really do this kind of consolidation acquisitions.

And the combination of all of that means that very fast, we integrate those acquisitions into the bigger Amdocs. So if you ask me 3 years later, so what's the contribution now of the Comverse customers? There's no more Comverse customers. It's an Amdocs customer into which we've sold all the capabilities that Amdocs can sell. And that's actually a great indication for us on the success of the objective of the acquisitions.

Isabella Schidrich - *Nasdaq, Inc. - MD*

Thank you, Tamar. We have 1 minute left, I believe. One more question, will Amdocs play a role in SaaS billing and aggregation? Could you comment very briefly now on your strategy to address this emerging market opportunity?

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

I'm sorry on which billing?

Isabella Schidrich - *Nasdaq, Inc. - MD*

On SaaS. So SaaS, billing and aggregation?

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

I think that what we are seeing in general, that everything that has to do with monetization is something we're very good at. So without getting now into specific examples, I would say, when people are investing in new networks, in new capabilities of launching services to market. And by people, I mean communication service providers, we are there to provide them the tools and the engines to do that. That's our role.

Isabella Schidrich - *Nasdaq, Inc. - MD*

Wonderful.

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

What we do is so well in this case. Thank you.

Isabella Schidrich - *Nasdaq, Inc. - MD*

Thank you so much, Tamar, for your time and for joining us today and for the great overview. And for the rest of the audience and yourself, I wish you a wonderful great conference. Thank you.

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

Thank you. Bye.
