AMDOCS Q2 2022 CONFERENCE CALL SCRIPT FINAL

May 11, 2022

5:00 pm

Matthew Smith

Slide 2: Disclaimer

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

Slide 3: Today's Speakers

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.

Slide 4: Earnings Call Agenda

To support today's earnings call we are providing a presentation which can be found on the Investor Relations section of our website, and, as always, a copy of today's prepared remarks will also be posted immediately following the conclusion of this call.

On today's agenda, Shuky will recap our business and financial achievements for the second quarter fiscal 2022 and will update you on the continued progress we have made executing against our strategic growth framework.

Shuky will finish by commenting on our financial outlook, after which Tamar will provide additional details on our second quarter financial performance and guidance.

As a reminder, our comments today will refer to certain financial metrics on a pro forma basis where applicable to provide you with a sense of the underlying business trends excluding the financial impact of OpenMarket, which we divested on December 31st, 2020.

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

Slide 5: Shuky Sheffer

Shuky Sheffer, Chief Executive Officer

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

Slide 6: Thank You for a An Exceptional First Half!

I'd like to begin on slide 6 with a **huge** thank you to our thousands of employees worldwide. Following a great Q1, our second quarter was also **very strong,** and I couldn't be more pleased with our **operational** and **financial** execution for the fiscal year to date.

Last quarter, we provided guidance for annual, constant currency revenue growth of between 6.0% to 10.0% over the next three fiscal years, and on the strength of our recent performance I can already say that we are tracking at the **high end** of this range on a pro forma basis for the current fiscal year to date.

I believe such **great performance** is a **testament** to our **market leadership** and the **successful execution** of our highly relevant growth strategy, the credit for which belongs to our **global** and **diverse** base of incredibly **talented** employees across **all dimensions** of our business.

I couldn't be **prouder** of Amdocs' people, and I am **highly confident** that we are well positioned for future success.

Slide 7: Q2 Operational Highlights

Now, moving to slide 7, let me address our second quarter operational highlights.

- To begin, overall business activity was **very strong** as we continued to **enable** our customer's strategy to provide a **superior** customer experience by supporting their **highly necessary** investments in 5G and broadband monetization, cloud adoption, digital modernization, and network automation.

  - Activity was **particularly high** in North America where Amdocs is at the **heart** of the major strategic long-term investments occurring at our **large** and long-standing customers.

    - For instance**,** we continue to support the multi-year modernization of **AT&T's** consumer domain which is core to its strategic focus on **5G** and **fiber connectivity.**

    - We are also glad to be a core part of **T-Mobile's** modernization journey where we are implementing our next-generation products and cloud services that will support T-Mobile's long-term competitive position and the realization of **synergies** related to the **Sprint** integration.

- **We also maintained robust sales momentum in Q2**.

  - We extended our long-standing managed services relationship with **Bell Canada** for another **five years** as we continue to support its cloud transformation.

  - We won a digital transformation project with **VodafoneZiggo** in Netherlands and a new 5G policy deal with a Tier 1 European operator which **expands** our existing footprint at this customer.

  - Additionally, we strengthened our partnership with **PLDT** in the Philippines with a 3-year extension of our existing managed services agreement, in addition to future projects to support PLDT's cloud journey.

- **I was especially pleased with our superb execution in Q2**, as we set another **record** for the number of project milestones deployed. Among our achievements, we completed a major digital transformation program for **Three UK's** enterprise customer segment, where we moved from scoping, to building the cloud infrastructure and go-live in just 15 months. Such **accomplishments** reinforce our **unrivaled reputation** for project delivery and strengthen our ability to maintain a **high win rate** in the market.

- **As a final highlight**, we further accelerated our R&D investment this quarter, **underscoring** our commitment to continuously bring cutting-edge technology and world-class products and platforms to market.

  - At Mobile World Congress in Barcelona this quarter, we launched CES22, our latest open and modular cloud-native, 5G suite. After the two-year pandemic, it was exciting to experience the **positive** customer energy at this year's show, and I was highly encouraged by the **strong** feedback we received in respect to our offering and strategic direction throughout the **dozens** of C-level executive meetings we hosted during the week.

Slide 8: Record Revenue & Earnings Performance in Q2-FY2022

Great operational performance translated into very strong second quarter results, **the highlights of which** can be seen on slide 8.

- **Record** revenue of $1.15 billion marked the **third straight quarter** in which pro forma growth has **exceeded** 10% year-over-year on a constant currency basis.

- We also achieved **record** 12-month backlog of $3.89 billion, up 10% from a year ago and driven by the robust sales momentum I highlighted earlier.

- On the bottom-line, we delivered non-GAAP earnings per share of $1.54 which was above the high-end of guidance, mainly due to a lower than anticipated non-GAAP effective tax rate for the quarter.

Slide 9: Response to Ukrainian Humanitarian Crisis

Turning to slide 9, let me say a few words about Amdocs' exposure to Russia and Ukraine, and our response to the humanitarian crisis unfolding.

- From a business perspective, Amdocs' exposure to Russia and Ukraine is **immaterial** at roughly **1% of revenue and its impact is already reflected in our guidance**. Furthermore, we believe we have taken all necessary steps to ensure we are **fully compliant** with the applicable **sanctions** and **export controls**, and we have **stopped** all **new** sales of our products and services in Russia.

- We have also taken steps to ensure the wellbeing of the employees and contractors we have in the region, and to support those who wanted to leave with their families.

- Additionally, we are actively providing humanitarian aid in Ukraine and neighboring countries.

    - Among our many initiatives, Amdocs is part of a donation campaign to provide essential services via UNICEF to vulnerable children and affected families. We are also offering financial support to Amdocs employees who are hosting refugee families.

Slide 10: Progress in Strategic Domains

Now, let’s take a closer look at our recent progress executing against our four-pillar growth strategy of cloud, 5G, digital and network automation, as shown on slides 10 and 11:

- Beginning with cloud services, **T-Mobile** has recently implemented Amdocs’ business assurance solution on **AWS.** Leveraging **cloud** and **artificial intelligence,** this implementation will help to drive **merger synergies** with Sprint by accelerating the **migration** to a combined customer base and is part of the larger digital transformation and extended **hybrid-cloud operations** we are supporting for T-Mobile under the multi-year managed services agreement we announced last year.
- Additionally, we are proud to say that we recently extended our long-standing relationship with **Bell Canada** as part of a new **five-year** managed services engagement to enrich its BSS platform with a real-time, agile, and cloud-ready ecosystem as part of its continued cloud transformation.

Switching to **5G monetization**, we are excited to announce a five-year deal with a **Tier 1 European operator** which will implement Amdocs’ **policy** control solution on cloud infrastructure to support its new 5G standalone network. 5G standalone networks will be central to unleashing the full potential of 5G, and Amdocs’ policy control solution is a key element that will enable this customer to launch cutting-edge 5G services and business models for its **residential** and **business** customers, while **reducing** operational costs.

Within **Digital**, we expanded our long-standing relationship with **VodafoneZiggo** in Netherlands which has selected Amdocs' products and services for a wide-ranging digital transformation project. Amdocs will migrate fixed-line customers to a platform previously built by Amdocs for **VodafoneZiggo's** mobile customers, thereby resulting in a unified customer journey, shorter average handling times, reduced time to market, and cost savings linked to the retirement of its old fixed-line IT stack.

Q2 was also a productive quarter in network automation. Among the customer highlights:

- We are delighted to announce that we have continued to **expand** our relationship with **Comcast**, which has selected Amdocs for a multi-year network automation testing deal.

- In Europe, we signed our **first-ever** agreement with **Vodafone Albania**, which expands on the previously announced deal to provide inventory and next-generation OSS capabilities for Vodafone's mobile, fixed and cable offerings in Germany, Romania, and Czech Republic

- We also successfully completed a network inventory modernization project with **Fastweb** which will enable the Italian service provider to improve time-to-market with innovative new services in the 5G and cloud era.

As a final comment, let me mention **Amdocs Media** which has been selected to deploy our **Amdocs MarketONE** SaaS platform on the public cloud for **Virgin Media O2.**

- MarketONE will give consumers the ability to add entertainment subscriptions to their monthly bill or enjoy them as part of a bigger bundle with their existing broadband, mobile and cable packages. Additionally, Virgin Media O2 will be able to easily expand its growing portfolio of new OTT partners as it looks to further improve customer loyalty. Overall, this exciting project provides another sign of **positive customer traction** for MarketONE, which has already been selected by **T-Mobile, AT&T Mexico,** and others.

Slide 12: Looking ahead: Tracking at the High-end of Guidance in FY2022

Now, turning to our financial outlook on slide 12.

As I said at the beginning of my remarks, I couldn't be more pleased with our Q2 performance. Our sales momentum is strong, and we see a large and expanding pipeline of opportunity ahead of us which we expect to monetize by leveraging:

- Our innovative, market-leading technology
- Our unrivalled track-record of execution, and
- Our highly skilled and talented employee base, which is focused on delivering value to our customers worldwide.

Wrapping everything together, we are **confident** that Amdocs can deliver annual revenue growth within the range of 6% to 10% on a constant currency basis over the three fiscal years 2022 to 2024, and that as a company we have entered a **new era** of **accelerated growth**.

Regarding fiscal year 2022 specifically, we are **now** tracking **at** the **high-end** of our revenue growth guidance range of 8% to 10% on a pro forma constant currency basis.

Similarly, we are also tracking at the high-end of our diluted non-GAAP earnings per share growth guidance range of 9% to 12% on a pro forma basis in fiscal year 2022, which firmly positions us to deliver **double-digit** expected total shareholder returns for the **second** year running, including our dividend yield of roughly 2%.

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

<u>Slide 13: Tamar Rapaport-Dagim</u>

Tamar Rapaport-Dagim, Chief Financial Officer & Chief Operating Officer

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

As a reminder, my comments today will refer to certain financial metrics on a pro forma basis, which exclude the financial impact of OpenMarket, which we divested on December 31, 2020.

<u>Slide 14: Q2 FY2022 Financial Highlights</u>

Turning to our financial highlights on slide 14, I am very happy with our exceptional performance in the second fiscal quarter, which followed an already strong start to the year.

Record Q2 revenue of $1.15 billion was up 10.1% year-over-year, driven by our **best-ever** quarter in North America and sequential growth in Europe and Rest of World.

Revenue was in line with the high end of guidance, including an immaterial impact from foreign currency movements compared to our guidance assumptions**.**

Moving down the income statement, our Q2 non-GAAP operating margin of 17.6% was up 10 basis points sequentially, and unchanged as compared with a year ago, as accelerated R&D investments and the effects of a competitive labor environment were more than offset by our relentless focus on operational excellence, including the ongoing implementation of automation and other sophisticated tools designed to continuously improve efficiency.

On the bottom-line, non-GAAP diluted EPS of $1.54 was **above** the high end of our guidance range. Diluted non-GAAP EPS includes a non-GAAP effective tax rate of 1.6% which was much lower than we anticipated for the quarter, primarily due to the release of tax reserves connected with funding decisions for the construction of our new campus in Israel. This tax benefit was **among the scenarios** contemplated in our non-GAAP effective tax rate guidance for the full fiscal year 2022, which is still anticipated to be within a range of 13.0% to 17.0%.

Diluted GAAP EPS was $1.28 for the second fiscal quarter, which was also **above** the guidance range of $0.96 to $1.04, primarily due to a lower GAAP effective tax rate than we anticipated for the quarter.

Slide 15: Leading Indicators and Business Resiliency: 12-Month Backlog

Moving to slide 15, **robust** sales momentum during the second quarter translated to **record-high** 12-month backlog of $3.89 billion which was up 10% from a year ago. On a sequential basis, 12-month backlog was up by $60 million as compared to December 31.

As a reminder, our twelve-month backlog includes anticipated revenue related to contracts, estimated revenue from managed services contracts, letters of intent, maintenance, and estimated ongoing support activities. To further clarify, a new deal with a customer will only be included in twelve-month backlog once the contract is **duly signed**. Given the overall nature of the work included, our twelve-month backlog has traditionally served as a **good leading indicator** of our business, having consistently averaged around 80% of forward-looking 12-month revenue over the years.

Slide 16: Leading Indicators and Business Resiliency: Managed Services

Turning to slide 16, Q2 was also a **record-high** quarter for revenue from managed services engagements, which grew roughly 5.0% from a year ago, equating to roughly 58% of total revenue.

Our multi-year managed services engagements underpin the **resiliency** of our business with **recurring** revenue streams, **high renewal rates** and **expanded** activities which may also include **large-scale digital transformation projects** with existing customers.

For instance, we recently extended our managed services relationship with **Bell Canada for another five years through 2027**, as we to continue to support its cloud transformation. Additionally, we strengthened our partnership with **PLDT** in the Philippines, where this leading operator has awarded Amdocs a 3-year extension of our existing managed services agreement through 2028, in addition to future projects to support PLDT's cloud journey.

<u>Slide 17: Balance Sheet & Cash Flow</u>

Turning to the balance sheet and cash flow, as you can see in slide 17. DSOs of 81 days **increased** by 2 days year-over-year and 2 days sequentially in Q2, primarily reflecting higher invoicing levels triggered by a record number of milestone deliveries achieved in the quarter. Additionally, the net positive difference of deferred revenue and unbilled receivables further improved in Q2.

Altogether, we generated normalized free cash flow of $160 million. This was a **strong** performance considering that Amdocs' free cash flow tends to be seasonally weaker in our second fiscal quarter due to the timing of annual bonus payments, and we believe we are well on-track to achieving our target of $650 million for the full fiscal year 2022.

Overall, we ended the quarter with a strong cash balance of approximately $856 million, including aggregate borrowings of roughly $650 million. Our balance sheet remains strong, and with ample liquidity we expect to be in a good position to continue to support our ongoing business needs while retaining the capacity to fund our future strategic growth investments as and when the right opportunities arise.

<u>Slide 18: Disciplined Capital Allocation</u>

Turning to capital allocation on slide 18.

As you can see in the first chart, we repurchased $130 million of our shares in the second quarter. Including cash dividend payments of $44 million, we returned $174 million to shareholders in Q2, equating to more than 100% of normalized free cash flow.

We expect to return a majority of our normalized free cash flow to shareholders for the full year fiscal 2022.

As an added point, our normalized free cash flow outlook of $650 million assumes a conversion rate of roughly 100% of non-GAAP net income, which is consistent with our long-term average. Normalized free cash flow excludes anticipated capex of about $131 million in relation to the development of our new Israel campus, consistent with our previous expectation.

Slide 19: Q3 & FY2022 Outlook

Now, turning to our outlook on slide 19.

The prevailing level of macro-economic, business, and operational uncertainty remains elevated, including with respect to the magnitude and duration of the COVID-19 pandemic. The third quarter and full year fiscal 2022 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.

With that said, we are tracking in line with the high end of our full year fiscal 2022 revenue growth guidance of 8.0% to 10.0% on a pro forma constant currency basis, which includes **positive contributions** from each of our three operating regions of North America, Europe, and Rest of World.

Our annual outlook includes third fiscal quarter revenue within a range of $1.14 billion to $1.18 billion, the midpoint of which represents the most likely outcome based on our internal analysis, equating to healthy growth of roughly 9.0% as reported from a year ago.

On a reported basis, full year revenue growth is also tracking in line with the high end of our guidance range of 5.2% to 7.2% year-over-year.

Our reported revenue outlook anticipates an unfavorable foreign currency impact of approximately 80 basis points year-over-year, as compared with our previous expectation of 60 basis points.

Moving down the income statement, we anticipate non-GAAP operating margins to track roughly in line with the **midpoint** of our annual target range of 17.2% to 17.8% in the fiscal **third and fourth** quarters. This outlook continues to assume an accelerated pace of R&D investment to support our customers, in line with our strategy, balanced with our constant focus on operational excellence as mentioned earlier.

Below the operating line, we anticipate 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.

We expect that our non-GAAP effective tax rate in the **third** and **fourth** fiscal quarters will be **above the high-end** of our annual target range of 13.0% to 17.0%. For the full year fiscal 2022, we expect our non-GAAP effective tax rate to be within the annual target range of 13% to 17%.

Bringing everything together, we expect to deliver pro forma non-GAAP diluted earnings per share growth in line with the **high end** of our guidance range of 9.0.0 to 12.0% for the full year fiscal 2022.

On a reported basis, we also expect non-GAAP diluted earnings per share growth in line with the **high end** of our guidance range of 7.3% to 10.3% year-over-year.

Overall, we are **firmly** on-track to deliver **double-digit** total shareholders returns for the second fiscal year running in 2022, assuming the higher end of our pro forma non-GAAP earnings per share growth guidance, plus our dividend yield.

With that, back to you, Shuky

<u>Slide 20: Q&A</u>

Shuky Sheffer, Chief Executive Officer
Thank you, Tamar.

As you can probably tell from our remarks today, we are **excited** by our first half performance, our recent strategic progress, and the strong outlook we have provided for the full fiscal year. With that, we are happy to take your questions. Operator?