EDITED TRANSCRIPT

DOX - Q2 2013 Amdocs Limited Earnings Conference Call

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OVERVIEW:

DOX reported 2Q13 revenue of $833m and non-GAAP EPS of $0.73. Co. expects 3Q13 revenue of $825-855m and non-GAAP EPS of $0.70-0.76. 2013 non-GAAP EPS is expected to grow 5-8%.

CORPORATE PARTICIPANTS

Liz Grausam *Amdocs Limited - VP, IR and Corporate Strategy*

Eli Gelman *Amdocs Limited - President and CEO, Amdocs Management Limited*

Tamar Rapaport-Dagim *Amdocs Limited - SVP and CFO*

CONFERENCE CALL PARTICIPANTS

David Kaplan *Barclays Capital - Analyst*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to this Amdocs second-quarter 2013 earnings-release conference. Just a reminder that today's program is being recorded and webcast.

At this time, I would like to turn things over to Liz Grausam, Vice President of Investor Relations and Corporate Strategy. Please go ahead.

Liz Grausam - *Amdocs Limited - VP, IR and Corporate Strategy*

Thank you, Lisa.

Before we begin, I would like to point out that during this call, we will discuss certain financial information that is not prepared in accordance with GAAP. The Company 's management uses this financial information in its internal analysis in order to exclude the effect of acquisitions and other significant items that may have a disproportionate effect in a particular period. Accordingly, management believes that isolating the effects of such events enables management and investors to consistently analyze the critical components and results of operations of the Company 's business and to have a meaningful comparison to prior periods. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release, which will also be furnished with the SEC on a 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 30, 2012 filed on December 11, 2012 and our Form 6-K furnished for the first quarter of fiscal 2013 on February 12, 2013.

Amdocs may elect to update these forward-looking statements at some point in future; however, the Company specifically disclaims any obligation to do so. Participating on the call today are Eli Gelman, President and Chief Executive Officer of Amdocs Management Limited, and Tamar Rapaport-Dagim, Chief Financial Officer.

With that, I will turn it over to Eli.

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

Thank you, Liz, and good afternoon to everyone joining us on the call today.

We are pleased to announce that our second-fiscal-quarter results were consistent with our expectations. We delivered another quarter of record revenue. Our margins remain well within the target range. And with consistent share repurchases, we have delivered non-GAAP EPS growth of 9% year over year in the second quarter.

I think it almost goes without saying that the global macroeconomics and operating environment remains quite challenging. In that context, we remain focused on what we can control, including driving strong execution in our current portfolio budget, launching creative solutions like CES version nine, order-to-activation outsourcing, and Amdocs' Compact Convergence on the cloud to meet the ever-shifting market conditions, and simultaneously strictly managing our cost and capital. With that said, we believe we are well on track to perform within our guidance range for the full year and provide an attractive total return to our shareholders, through our GAAP EPS growth plus our dividend deal.

Let me now review the Company's second-fiscal-quarter activity on a regional basis. Beginning with North America, we are pleased to report second consecutive quarter of improvements in the region. Our business with AT&T has continued to grow as the customer focuses on new opportunities. Additionally, activity level improved more broadly across the North American region. Overall, we are encouraged by the stronger results in this region. Although we remain cautious on the near-term outlook, as it relates to the effects of carrier consolidation in the North American market. Long-term, however, we continued to believe that this type of strategic activity is healthy for our industry and presents good opportunity for Amdocs.

Moving to the emerging markets, we continued to see solid trends across Southeast Asia and Latin America. Currently, we're engaged in some of the world's most complex transformation projects on behalf of our emerging market declines. We are pleased with these results in the emerging markets, but we all need to take into consideration that, in fact, the quarterly revenue trends can fluctuate quite significantly due to the size of the delivery milestones involved in this large project. We remain focused on the execution of our current transformation project, as well as capitalizing on the substantial pipeline of opportunities we continue to see in the emerging markets.

As for Europe, our revenue was flat quarter over quarter. That region remains affected by difficult macro-economics environment and longer decision-making cycle, which is translating into slower pace of new signing. Given these conditions, combined with the anticipated ramp down of some transformational projects in the region, we now believe that Europe is unlikely to deliver growth in fiscal 2013. Despite the macroeconomics headwinds, we believe our competitive position and execution in Europe remains strong, and we are actively pursuing new opportunities in these markets.

Beyond the quarter results, I would like to spend some time now on recent announcement and trends in our business. First, at this year Mobile World Congress in Barcelona, we announced the launch of CES 9. CES version 9 is the industry-only fully integrated suite to span business support system, BSS, operational support system, OSS, and network control domains. Our approach redefines the service providers' operating environment by delivering real-time full integration from the device to the network across critical play services. In addition, CES 9 offers enhanced customer-management capabilities to enable multi-channel customer care and greater real-time insight into subscribers' behavior. Initial feedback from customers and industry analysts have been very positive. We believe we are on track to meet general availability target date of May 31.

Second, we recently announced the availability of Amdocs' Compact Convergence, or ACC, on the cloud. ACC is designed to expand our market opportunity to meet the needs of smaller service providers whose requirements are significantly less complex. ACC is a lightweight BSS product suite based on assets we acquired several years ago, augmented by technologies from Amdocs' newest and latest core portfolio. We are now offering ACC over the cloud to further minimize set-up costs for small operators and driving faster time-to-market for their needs. ACC will be offered in a multi-tenant business model with very limited customization. It is also time to emphasize that CES 9 remains our flagship full-service offering for our core target markets of the world's leading service providers. CES 9 will continue to be offered as an on-premise solution or within managed-services arrangements.

Lastly, I would like to discuss some major delivery milestones this quarter. While we usually do not speak about project delivery, this quarter marked the accumulation of many significant milestones that are worthy of mention. As we announced today, we went into production with a major phase of Globe's transformation in Manila, during the second fiscal quarter to support Globes' postpaid subscribers. To the best of our knowledge, this was one of the fastest, most major, ambitious modernization ever performed in the market. Going forward, we will modernize and consolidate Globes' BSS data warehouse systems and business processes to include prepaid subscribers and to support Globes' wireless, wireline, and broadband operations.

In addition to Globe, we successfully delivered major milestones in both US cellular and Vodafone Netherlands in the second fiscal quarter, where we were modernizing BSS systems. In fact, there were several more major production milestones this quarter with undisclosed customers. The smooth and simultaneous delivery of systems of this complexity and gravity speaks for the strength of our [week] newest version of software, the professionalism of our project-delivery team, and the efficiency of our managed-services organization. If you recall, when I returned to the Company, back to the Company in late 2010, we decided to reinvest in the professionalism of our IT capabilities across all of our key components in R&D, in delivery, and in managed services. ¶

The direct financial benefits of these investments are understandably difficult to measure; however, we strongly believe that these investments have enabled us to deliver this world-class delivery of many project, many major (inaudible) projects. Moreover, we do not think there was any other Company that can deliver BSS and OSS implementation at this quality, and certainly not at this scale and in a very short timeframe.

To wrap up, we are pleased with the performance in the second fiscal quarter, especially given the macroeconomic uncertainties and the ongoing consolidation activity in our key markets. We remain focused on winning and delivering strategic long-term deals, while maintaining strict control on our costs. Providing our shareholders with attractive total returns is our ultimate aim, and we believe we are on track to achieve this in fiscal 2013.

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

Tamar Rapaport-Dagim - *Amdocs Limited - SVP and CFO*

Thank you, Eli.

Second-fiscal-quarter revenue of $833 million was within our guidance range of $820 million to $850 million, with a negative impact from foreign-currency fluctuations of approximately $2 million relative to the first fiscal quarter of 2013 and relative to our guidance. Our second-fiscal-quarter non-GAAP operating margin was 16.8%, an increase of 20 basis points compared with the first quarter of 2013. This is the highest level of profitability since the fourth fiscal quarter of 2010 and partly reflects ongoing efficiency gains in our Core business. We would like to remind you, however, that we continue to invest in new client and geographic expansion. We still expect operating margin to fluctuate in the 16% to 17% range for the remainder of fiscal-year 2013 and we would not extrapolate the trend of margin expansion from the strong results in Q2.

Below the operating line, net interest and other expense was $1.8 million in Q2. For forward-looking purposes, we continue to expect the net interest in other expense may be negative in the range of a few million dollars quarterly, primarily due to foreign currency fluctuations. Non-GAAP EPS was $0.73 in Q2, compared to our guidance range of $0.69 to $0.75. Our effective tax rate of 13.8% for the quarter was within our expected range of 13% to 15%. Free cash flow was $91 million in Q2. This was comprised of cash from operations of approximately $120 million, less $29 million in net capital expenditures and other. DSO's, 73 days, declined by two days quarter over quarter, and total and billed receivables were down $12 million, as compared to first fiscal quarter of 2013. Our total deferred revenue, both short- and long-term, rose by $16 million sequentially in Q2.

To address some written questions we have received from investors, I wanted to take a moment to explain the impact of major transformation projects on some of our balance sheet accounts, including DSO and unbilled receivables. Timing differences between revenue recognition, the invoicing of customers, and cash collections often emerge in projects under percentage of completion accounting. These timing issues arise in almost all projects to some degree. But they produce more notable changes in our balance-sheet accounts what we are engaging major transformation programs. This is due both to the sheer size of these projects, as well as the perceived risk of this project the customers, which may cause longer periods of time between revenue recognition based on percentage of completion and contractually agreed-upon invoicing milestones. Therefore, in time periods where we have significant transformation projects, such as we are currently experiencing, we can see an increase in DSO and/or unbilled receivables.

Perhaps more importantly, we would like to emphasize that our collections, once invoiced, remain strong, and our allowance for doubtful accounts remain consistent with historical levels. We want to reassure you that internally we remain extremely focused on cash-flow efficiency, and we believe our Q2 results are a good example of that.

Moving back to Q2 results, our cash balance at the end of the second fiscal quarter was approximately $978 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 $2.81 billion at the end of the second fiscal quarter, up $10 million sequentially.

During the second fiscal quarter, we repurchased $109 million of our ordinary shares. We completed our prior $1 billion program and had $490 million remaining under our more recent $500 million authorization, as of March 31. The new plan has no expiration date and is being executed under our 50/50 framework for free-cash-flow allocation. As a reminder, under this framework, on a long-term basis, we generally expect to allocate approximately 50% of our free cash flow to strategic growth activity, including M&A and the remaining 50% directly to shareholders through dividends and buybacks.

Looking forward, we expect revenue to be within a range of $825 million to $855 million for the third fiscal quarter of 2013. This range includes minimal anticipated sequential impact from foreign-currency fluctuations as compared to Q2. For the full fiscal year, we believe revenue is currently tracking towards the midpoint of our previously guided annual range of 2% to 5% growth on a constant-currency basis. However, we now expect foreign currency fluctuations to place a drag of about 30 basis points to our full-year growth on a reported basis, which was not anticipated at the start of the year.

Within this outlook and consistent with our prior expectations, we anticipate revenue from our Directory business in fiscal 2013 to decrease in the double-digit percentage range, placing about a 1% drag on the total Company results. We anticipate our non-GAAP operating margin in the third quarter and for the fiscal year to continue to be within a range of 16% to 17%. We also expect the third fiscal quarter non-GAAP EPS to be in a range of $0.70 to $0.76. Incorporated into this forecast is an expected average diluted share count of roughly 163 million shares in Q3, and the likelihood of a negative impact from foreign-exchange fluctuations in net interest and other expense. We excluded the impact of incremental future share-buyback activity during the third fiscal quarter, as the level of activity will depend on market conditions. For the full year, we continue to expect 5% to 8% non-GAAP EPS growth. The annual guidance does include estimated future share-repurchase activity executed in accordance with the framework previously outlined.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) David Kaplan, Barclays.

David Kaplan - *Barclays Capital - Analyst*

Yes, a couple of quick questions for you guys. First of all, about the transformational projects, are you seeing -- I was a little bit surprised to see the transformational project announced in emerging markets. Can you talk a little bit about the pipeline you're seeing those or where you're targeting transformational projects? Is it more in developed markets? Is it also in emerging markets? And, what does that pipeline look like?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

So, David, we definitely see transformational projects in the emerging markets. And we believe that the number-one reason for that is because the emerging markets is moving fast to the same philosophy that the developed market has, which is everything is about the customer experience. So the period that people would go off to [land] grabbing, get any customer they can, and later on fight on price war for every call, every Sim card they sell, are more or less over, including the Southeast Asia and in Latin America and other places.

So due to this shift to more customer centricity, the retention of customers for the carriers, our set of applications are becoming very relevant. And since they need to, in a way, almost skip a generation of systems, they tried to go to the best, which is transformational project with us. So the one that we just announced, the [delivery feat] was about 12, 13 months from design to production in Manila, a major project with millions of subscribers. And that will continue in the following quarters. But there's more transformation and more conversion of new customers will go into this. Now we have the same thing in Latin America; we have the same thing in other places, in Southeast Asia. So definitely transformational projects are part of the scene that we have in the emerging markets. We don't see that many transformational projects in Europe, and we see some, obviously in North America, depends on the customers and the situation.

David Kaplan - *Barclays Capital - Analyst*

If I can just follow on to that in asking two separate things. One of them is the transformational projects that you are seeing now, especially in the emerging markets, the older systems that are being replaced, are those competitor systems or are those home-built systems? And then the second part of the question is really for Tamar. When we think about modeling the balance sheet going forward, likely you talked about during your presentation there, how should we be thinking about recognition of revenues?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

Maybe just a quick answer to your first question, we are placing both homegrown systems and competitor systems. And luckily for us, nobody replaces us on this.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP and CFO*

And as to your question about the balance sheet, it's even hard for us having all the details, to try and project with accuracy on a quarter by quarter what would be the balance sheet items. Looking at longer term, we are tracking the conversion rate of cash from earnings of around, I would say, 90%, depending on the period, tracking towards 100%. The more activity we will be able to converge toward managed services. That's the rough thinking around this. So thinking long term, this is not a business model that should have any issue converting business into cash. We are not seeing issues. It is just a matter of the mix of business, are we seeing more transformational project with the phenomena I was talking about relative to ongoing sustainable monthly activity of more routine managed services. So I think this mix will play along as we move, and that's that color we were trying to portray here.

Operator

Tom Roderick, Stifel.

Unidentified Participant - - *Analyst*

This is Chris for Tom. Thanks for taking my question. So just a quick question on the new activity comment, or the broader improvement that you mentioned, Eli, in North America outside of AT&T. Was wondering if you could give us a sense of exactly what is happening there? Is that being driven by state policy-type things or is it something else? Thanks.

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

Chris, it's actually many things that adds up together. Some of it is policy; some of it is charging; some of it is CRM; some of it is cable; some of it is -- almost everything I can think of. So, additional project that -- spending on current businesses. I don't think that I can really say it's a trend of a specific kind. It means that the market is waking up, that is what it basically means. And people see obviously really what we are providing, so we see it across the space in North America.

Unidentified Participant - - *Analyst*

Excellent, thank you. And then just secondly relative to the backlog, this may be picking nits, but if you look at the second quarter in a row, it's $10 million sequential increase. It's a little light. I know it might be only be one or two contracts, but can you give us some color as to what is going on there?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP and CFO*

First of all, again, it's part of the technical explanation here is that FX having an impact not only on our expectations on the full year, as we explained, but also on the backlog numbers. So we lost around $10 million, rounding the number due to FX from backlog point of view, both sequentially and also year over year. And to add to that is exactly what you said, some thing track into the backlog necessarily or altogether as a full deal, when we get it signed. Some things are signed more in a phased approach, so it's an important indicator, but one that should be taken with some limitations.

Operator

Jason Kupferberg, Jefferies.

Amit Singh - *Jefferies & Co. - Analyst*

This is Amit Singh for Jason. Actually just looking at your emerging market revenue profile, I understand that it is -- the quarter-over-quarter revenues fluctuate. But if you look over the last three quarters, the quarter-over-quarter growth has been negative. And then the year-over-year growth trend has been coming down. Is there something that you are witnessing other than fluctuation over the last -- that you witnessed over the last two or three quarters in emerging markets in general?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP and CFO*

I think what we are saying is on the one hand, continuation of good opportunity of the markets' needs, as Eli mentioned, and the fact that we have the solutions that the players in this market actually need today. So, strong pipeline, continuing to move along. And on the same time, we are executing some big deals that we have signed over the past year or so. And it seems that the customers, at least those that are running those large transformation, need to digest first and go for those first phases of those large transformations before they move on to the next phases of business that we can potentially sign with them. And, as we've said yes, we could see these kinds of fluctuations. You're absolutely technically right; we've seen deceleration of the year-over-year growth rate. But overall we still believe we can reach double-digit growth in emerging markets, and that's a phenomena that we will continue to see moving on.

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

Just maybe to add a little of color, last year again, year over year it was over more than 30% I think overall. We said all along it's not sustainable. And if you ask me, maybe this year could be double-digit but could be low teens, could be up to 15% maybe. Next year it could be bigger than that or the same place. So the fact that it fluctuates is not an indication to the amount of energy and changes that we see in the emerging markets. As Tamar said we believe that it goes in waves. We've seen it before in other places. When someone digests a huge project, it takes some time until they really come up with the subsequent projects. So we still think that the emerging market is a great growth engine for us. We have a very nice win rate in the emerging markets. We have a great delivery capability, as we've been demonstrating the last couple of quarters, but we've seen it in the last year as a matter-of-fact. We believe some of them will go to managed services, as well. And long-term I think will be, it will be a great business for us for the years to come.

Amit Singh - *Jefferies & Co. - Analyst*

Perfect, and just as broader question, emerging market is definitely getting [grow] -- you expect it to be double-digit or maybe slightly lower. But as we look at your broader, overall revenue profile, and we're trying to just get a sense of what would be the catalyst that can break you from the current growth profile and drive you at a much higher rate? Where do you think that growth will come from? I expect in North America, as you're seeing it doing better, but is there something significantly going to change over here that could drive you into a different bracket of top-line growth? Or, should we expect most any catalyst, if it happens, or to come would be from the emerging market?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

No as a matter-of-fact, look, we gave in the analyst day like a three-year framework of our thinking. We still believe it's a valid framework. But if you ask a hypothetical question, what can accelerate even within this range or outside this range, I don't think it will be one specific component. I can think of several that if they come together in a perfect alignment, can definitely move us faster. Among these components, again don't take it literally, but among these components, I can't think of the cable and satellite industry that may start to transform. We are saying it for about a year, but again we believe that we said within the next two years, which is give us another year to start seeing it, we believe it will happen. If you see this move into spring, assuming that something like this may happen, as an indication of the same movement, then you have the data monetization. If there will be many more offers like the family data share and many others that will generate growth that can move the market, not only in the emerging market at all and consolidation.

A lot of rumors, some of them are not rumors. Some of them are actually activity that is happening. T-Mobile are now finalizing the deal with Metro. That's a potential business, in addition Sprint might represent new activities. Because all these consolidations create new activities for companies like us, and there are very few companies like us. Same goes around the world, people are talking about Vodafone may be in play and other companies. So this consolidation could be -- what could be a catalyst across the world. And then, of course, you have different markets that we have very little penetration to, including Southeast Asia, but including Africa, including the BRIC countries like Russia, and CIS and others. So if you add up many of these components, it may change the framework. But again, that's why we're usually giving a very clear framework that we believe the Company is performing in. And we don't have a reason today, despite some of the challenges in the market, to change it.

Operator

Julio Quinteros, Goldman Sachs.

Paul Thomas - *Goldman Sachs - Analyst*

This is Paul Thomas for Julio. Could you talk a little more about the improvement in North America? You talked last quarter about the potential for improvement at AT&T. Was there any of that driving this quarter? And how do we think about that revenue for the rest of the year?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

So we're not guiding the rest of the year, definitely not on a specific -- customer-specific region. But no doubt it's part of the growth within North America. It is driven by AT&T activity. I think we predicted well when it slowed down because of the non-merger with T-Mobile. Then we predicted quite accurately when it start moving up. AT&T is a very active Company across many, many regions. We broaden our portfolio of products and services quite dramatically in the last 18 months, and we believe that there is just a good match between some of the things that we have done in our offering and some of the things that AT&T and other carriers in North America needs.

We just shared with you a major delivery in US cellular, which is a completely different scale. But it's still a full transformation of the entire BSS, and it's not necessarily the end of it. Because as we progress, we are having more capabilities that are very applicable to customers like US Cellular. So I'm just giving you two sides of the spectrum in North America. And obviously we did not speak about Spain and Metro and other carriers that we are working with. The T-Mobile Metro is still unknown, because they are into their design phase, and we hope that we can prove to them that we can be of help in this transformation that they are going through.

Paul Thomas - *Goldman Sachs - Analyst*

Okay, thank you for that. This might be too customer-specific, but the Comcast subscribers that were set to move from CSG over to you guys, did that happen already this year?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

For that is very specific, we cannot relate to that. But I would -- maybe I would give you a broader answer. We believe that with our investments in cable and satellite offerings, that we have, we believe that there are more things at Comcast and DirectTV and Dish and everybody else can find in our offerings. And as such, we are fairly optimistic that our business with these customers, not specifically, only Comcast that I am relating to, but (inaudible) spend.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP and CFO*

I think in general there's probably an exaggerated emphasis on the zero-sum game of moving subscribers, primarily just in billings from other vendors to us. And I think we have a great example this quarter, signing the first North-American managed services over OSS with Comcast. That's exactly to Eli's point about our offering being much more richer and enabling us to sell and continue to see growth in that segment from our point of view, by providing many other solutions that are much broader than just billing. Not that we have anything against billing, of course, but just to make that point.

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

On the contrary, we actually -- Did that answer your question, Paul?

Paul Thomas - *Goldman Sachs - Analyst*

It did, thank you.

Operator

Mark Sue, RBC Capital Markets.

Mark Sue - *RBC Capital Markets - Analyst*

Just a conceptual question on how Amdocs might be able to preserve and potentially improve pricing power with some of your larger customers over time? And also how should we think about pricing when you start pushing people into the emerging markets? Do we start at a lower level and then scale that, or do you think we could actually start at a base level that's attractive for some of these managed contracts?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

So, Mark it is a very broad question. I'll try to give an answer. I'm not sure I will be able to really address all the aspects of it. But we don't think in terms of pricing power at all. We think internally in terms of [failure]. And we are definitely not the cheapest. Some people say that we are the most expensive provider per project, but on the other hand, people recognize that we are the most cost-effective provider out there. So if you are going through high-end transformation or you need to keep very tight KPIs on the operation, or you need to be very cost-effective, you order Amdocs. So we don't think that over time we'll necessarily use our power with our customers, because they are getting -- having more business with us and against them.

On the other hand, we don't believe that they have a very strong lever on us, because we do mission-critical, very important stuff. And it's not about the cost of moving the bid from left to right. It's about the quality of the operations that we are providing. So, I think that we have some kind of a good win-win relationship with our customers on both ends. We've seen it also in the renewal of managed services deals. So that's one aspect of your question. In terms of the emerging markets, we first of all, we see large projects in the emerging markets. So if you expect that the project that will be $50 million worth of project; in the developed market it will be $20 million. In the emerging market, it doesn't happen. Our experience right now is that this carrier is actually very wealthy, very stable, have a very good performance. And the fact that they are working lower ARPU does not mean that their performance is inferior, inferior to Vodafone or Deutsche Telekom or AT&T or Verizon.

So, we see large project with high-volume of money being spent on projects. Now in terms of the ongoing, you should remember that we are operating this in lower cost structure as well. Because we have a lot of operation in Manila, in India, and in Brazil, and in Mexico and other places, so our cost structure is different than we -- so far we haven't been very competitive and we managed to get the right project for the right profitability even the emerging markets. Regardless of the fact that it is emerging markets, when we penetrate into a market, you should expect that profitability overall is not as high, because we're investing in whatever feature, whatever setup, or whatever operation we need to set to work in this specific market. But it's not because of the nature of the emerging markets. When we penetrated many years ago to North America to Europe we have the same phenomena, of course. Now, I don't know if I answered your question, but it is an attempt at least.

Mark Sue - *RBC Capital Markets - Analyst*

That's helpful. If I could move a step further, with all the changes and the growth areas you are targeting, should we still see very stable band of your operating margins over the longer term? Or are we at a point where scale has some further advantages and we can actually improve operating margins much longer term?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP and CFO*

Our three-year outlook remains on the 16% to 17% in terms of the operating margin. And taking into consideration, on the one hand, continued investments in new areas and new logos that we plan to penetrate for this period, and at the same time, continuing efficiencies and major focus internally on our cost structure. And the balance of these is the margin range I've just indicated.

THOMSON REUTERS

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

And maybe one comment about that. Guys, we've set the range and we don't manage the Company on every 10 basis points. This quarter it came with 16.8%, which is definitely nicer than 16.6%. But if we got the next one to 16.7%, I don't think it would be too worried about it (inaudible). Overall we believe that this range can hold long term. Longer term it could (inaudible) we can expand the range, but for that, we'll have to wait until we are -- we have a better visibility for the following few years. And it really depends on what type of investment and (inaudible) we will have to deal with at the same time. So, we should not get over excited about the 16.8% and over upset with 16.7% or 16.6%. This is the range we gave, and that's the reason why we mentioned it also previously.

Operator

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - *Citigroup - Analyst*

So my question really is, is there a point during this fiscal year during which you say as you look at your M&A pipeline, you say I have very good free cash flow, but there's no way I'm going to be able to use all of that up this year, and so I'm going to do a bigger buyback? How do you look at that capital return/investment question at this point of the year?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

Ashwin, it's a fair question, but we cannot answer it on a quarter-by-quarter level or whether it's going to happen in this fiscal year or the beginning of next fiscal year, because it fluctuates all the time. That's exactly why we set up a long-term phases of 50/50. We are watching it carefully. At any given time, if we want -- if we don't think that, again, not on the next few weeks, but at any given point, we're looking at the balance between how much cash we have, what are the M&A's plan and our ability to lever the Company as well. And eventually, if we, over time would not find the right way to do strategic deals that can generate revenue and EBIT for the long term for the Company. And it will be small business. We've said all along that we will accelerate a buyback and vice versa, if we have great deals and we will execute them, we will probably will slow down on the buyback.

To give you an answer whether it's going to happen this fiscal year, in other words in the next four, five months, I think it will be not responsible actually to do that. So, we stated all along and we demonstrated it also in the last couple of years that when we have excess of cash, we return it back to the shareholders. We are now in the process of looking at many aspects, so the fact that our balance went up, whatever $15 million, should not get all of us overly excited. But we don't exclude accelerating buyback if we don't have good ideas of where to invest the money in the growth of the Company. Growth and profitability of course. Profitable growth. Is that fair enough, Ashwin?

Ashwin Shirvaikar - *Citigroup - Analyst*

Yes, no that's fair enough. One question I had, and obviously Amdocs over time has done a very good job of forward-looking investment in new technologies and moving, keeping that curve moving. Is there a time where you look at maybe yesterday's technologies, things like the directory business, why do you need to be in there? Is there a strategic reason? I understand the legacy reasons for it, but is there a strategic reason to be in there? Is it separable? It's had multiple years of poor performance, unlikely to change. Are there opportunities where you streamline and monetize?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

So, Ashwin, the one thing I will tell you that we are not emotional people. So the fact that the Company originated from the (inaudible) specifically of your question has nothing to do with our decision to hold onto this unit. Actually this unit is producing negative growth, but more than decent profitability. And we are reviewing any unit of the Company, even smaller units in the directory, every single year, with the notion of whether we should accelerate, sell it, close it, or whatever. And we did, and we did throughout even the last three years. We shut down some activity. You don't see them because we don't report them separately. So I would say that the reason why we are managing it is because it's actually worthwhile to do, to hold it. You need to take and know that we are not emotional on holding thing that we have, including maybe stuff that we accumulated throughout the years in terms of technology that was very relevant five, seven years ago and not relevant today. We are reviewing every one of these aspects on a yearly basis.

Operator

Shaul Eyal, Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

I apologize my question -- I apologize if my question has already been asked. I was juggling in between three calls. Eli, this is a question that once every few years we tend to bring up. Do you -- and again, I'm trying to bring it up in the context of your discussion about some improvement in the North-American market. Do you view billing as a leading or as a lagging indicator as it relates to the overall telecom spend? What's your view on that point?

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

I don't think it's -- look, it appears to be an indicator a few years ago, but billing per se, is an indicator, but not a very clear one. And billing by itself has been [focated] actually to several subsets of indicators. One of them is real-time charging. The other one is policy. And it's really hard to say that one item there is the indicator for the market. Now, it's very -- and it fluctuates quite significantly between North America, Europe, and the emerging markets.

So, I don't know what you're -- what do you need this answer for. If I want to understand better, I may try to help you better, but as you ask it, as a separate question, I would say it's not a very clear indication. It's an indication. Let's say if there are no billing transformations ever in the world, it's not a good sign. But whether, how to conclude from several billing transformations, a certain conclusion, don't think it will be a very good indicator because a lot of companies transform because of customer-management issues. A lot of them are transformed because of overseas issues in operation. Some of them transform because it's completely new market offering that they're trying to offer in their current system and they just cannot do it. And I can give you seven other reasons why people transform and go into our systems.

Operator

Kiera Kilkowski, Banc of America, Merrill Lynch.

Kiera Kilkowski - *BofA Merrill Lynch - Analyst*

You touched on it a bit already, but I was wondering if you could help us think about the competitive environment that you're seeing? Any changes and any differences you are seeing between the regions. And then separately, you've been talking about cable as a growth engine, a diamond in the rough for the past few years, and I'm wondering if you could help us think about what the catalyst to see growth in that market would be? Is it maybe a product issue or just a market dynamic that needs to change? Thank you.

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

Kiera, thank you very much for the question. In terms of the competitive landscape, look, you're probably watching the entire space not only ours. We enjoy good to very good hit rate against our competitors. We are placing some competitors' systems all around the world. On other hand we have a large number of competitors. Some of them are very aggressive. And so far this aggressiveness did not change what I said before, that we have a good win rate against our competitors, and we don't win because of price. I can assure you that. We win because of the quality of the product that were being in the services and the risk that is not associated with Amdocs. And the reason why I mentioned delivery project this time around is because when you have three major deliverers, -- deliverables of an end-to-end BSS, which is about maybe 14 different systems under this name BSS, and full conversion of millions of subscribers going smoothly into production, it's something that any one of our competitors can only dream of. And if you could take it and cut it by ten times, they can still dream of it. So, that's the difference.

So, I think that we have a good standing and position when it comes to sales and new wins, but it's even stronger when it comes to when deliverable of the systems. Nevertheless, it's good that we have competition. It keeps us on our toes. We keep on investing in several many directions, and we believe in let them -- the best man win, which is us.

In terms of the cable, we started seeing some movement in the cable, not only North America, across the world. We see it in some areas in Latin America. We see it in some areas in Southeast Asia. In North America, I would say that there is higher recognition or stronger recognition that the system that the MSO's have used in the last 20 years are running out of steam. That's as simple as that. And you can augment it here and patch it there, but it's running out of steam. And nobody, other than us, invested ahead of time to offer a decent proposition for these MSO's. So, the more MSO's that will get to the conclusion that they need to transform, the better chance we have to see transformation that works for Amdocs.

Now I cannot give you specifics, so right now, we see some peripheral projects, some smaller projects, but I still think it's a diamond. And I think it's still a diamond in the rough. And hopefully in the next year or so, don't take it literally, but we'll be able to see more tangible proof to what I just said, which we see already in other parts of the world.

Operator

Damon Guirdham, Generation Investment Management.

Damon Guirdham - *Generation Investment Management - Analyst*

Firstly, just a housekeeping one. Is it fair to say that some of the FX headwind would've come from the emerging-markets line?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP and CFO*

I would say some of it is in rest of the world, but actually a small part of it. The vast majority --

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Damon Guirdham - *Generation Investment Management - Analyst*

Okay, so most of it is Europe.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP and CFO*

Europe.

Damon Guirdham - *Generation Investment Management - Analyst*

Okay, thank you. And then I'd love an update on periodically you've thought about what adjacencies you could apply your core competencies to that might drive value for shareholders over time. And I know your financial services was on that list for a while. Could you just update us on the strategic thinking around adjacencies?

THOMSON REUTERS

Eli Gelman - *Amdocs Limited - President and CEO, Amdocs Management Limited*

So, Damon, we will give a, let's say, a more elaborate update when we have more elaborate things to share. But we are active right now in several directions. Adjacency doesn't have to be only outside of the telecom. If you watch what we are doing with acquisition of Bridgewater and other things, one of the adjacencies that we have is actually tapping into the network applications. Not hardware, god forbid, but into applications without touching the network. So that's one direction that we are expanding all the time.

And we are also looking at some areas that are in between the carriers and other industries. Some of these topics have to do with the fact that payment is becoming a very important component in the telecom market, not only payment in retail stores or something like this, but even payment as a differentiator. When you look at what Metro PCS is doing, for example versus others, they're inventing new methods of payment, new methods of how you pay for your services. And that leads us to -- maybe would lead us to new areas that we may expand into. So, I would mention this to areas as data points that you can take. But once we have more tangible things to share with you, we'll be happy to do that. It is an active area that we are looking into.

Operator

And at this time there our no further questions. I will have the call back over to Liz Grausam for any additional or closing remarks.

Liz Grausam - *Amdocs Limited - VP, IR and Corporate Strategy*

Thank you all very much for joining us tonight, and have a wonderful evening. Take care.

Operator

And again, ladies and gentlemen, that does conclude today's conference. Thank you all for your participation.