

AMDOCS Q1 2022 CONFERENCE CALL SCRIPT
February 1, 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

Consistent with last quarter, 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 provide an update on our recent strategic progress and business performance, and Tamar will review our financial results and our positive outlook for fiscal year 2022.

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: Strategy & Business Performance Update

I will start today's call by recapping our business and financial achievements for the first quarter fiscal 2022.

Second, I will update you on the main pillars of our strategic growth framework and the continued progress we have made in the past quarter.

I will wrap up by discussing our financial outlook, including our expectations for continuous revenue growth in fiscal years 2023 and 2024 which we are providing today.

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Tamar will then provide additional details on our first 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.

Slide 7: Great Start to FY2022

So, let's get going. Turning to slide 7, I am proud to report a **great** start to fiscal year 2022.

At our analyst and investor business update last November, we outlined our strategy to deliver **accelerated** revenue growth by bringing **market-leading innovation** designed to meet the industry's need for digital modernization, 5G monetization, journey to the cloud and network automation.

Based on our first quarter performance, I believe our strategy is **continuously** gaining traction in the market, evidenced by another quarter of **strong sales momentum** across **long-standing** global customers such as **AT&T, T-Mobile, Vodafone, Globe Telecom**, and others.

Additionally, we penetrated several **new logos** that support our ongoing growth and regional **expansion**, including **PPF Group** in Europe and **Vodacom** in Africa.

Our customer's investments in industry **megatrends** like 5G and cloud are gathering pace and translating to strong demand for our products and services. The **relevancy** of our offerings to the market results from our past and ongoing commitment to R&D investment which further **extends** our **technological leadership** and brings **cutting-edge innovation** to our customers.

To add a further point, I believe our **capacity** to win new business is a function of our **unrivalled reputation** for project delivery, as demonstrated by **yet another record** quarter for the number of **deployment milestones** achieved for our customers in Q1.

M&A is another important tool we use strategically to **accelerate** our capabilities in key growth areas.

- Focusing on our cloud strategy, I am delighted to announce our acquisition of **DevOpsGroup**, a **boutique** UK-based cloud company specializing in engineering, consultancy and training services for enterprises implementing cloud and DevOps. **DevOpsGroup** geographically complements the high-end expertise we acquired with last year's acquisition of **Sourced Group** and further strengthens our professional services organization to support all aspects of our customers cloud journey including consulting, cloud-native software, migration of

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Amdocs and non-Amdocs applications, ongoing development and cloud operations.

Slide 8: Enriching Lives, Progressing Society

Overall, I am proud of our progress in Q1 which we achieved while striving to improve the lives of people in our communities.

- Slide 8 highlights just some of our many initiatives. Demonstrating our commitment to a green environment, we recently completed a cloud migration project to support improved air quality in London by expanding the city's ultra-low emissions zone.
- Amdocs Mexico was recognized by the NGO Human Rights Campaign as one of Mexico's Best Places to work for LGBTQ+ for 2021, and our deep commitment to diversity was recognized by the Peruvian Government for promoting an inclusive society in which people with disabilities achieve full development. Amdocs Israel also won the 'Diversity in business' prestigious award, for our work to promote employability of the Arab minority in the tech industry.

As a mark of our commitment to sustainability and corporate responsibility, Amdocs was recently honored to be included on the prestigious S&P Dow Jones Sustainability Index for North America for the third consecutive year, placing us amongst the top 15% of companies in our industry based on long-term economic, environmental, and social criteria.

Slide 9: Committed to our People

I believe such recognition is a testament to Amdocs' identity and reflects the values held by our 29,000 people worldwide. I would like to take this opportunity to extend a warm welcome to all those who have recently joined the Amdocs family, and **my sincere thanks to all** our people for their **dedication, resilience, and commitment** to ensuring a great start to our fiscal year.

Slide 10: Strong Performance in Q1-FY2022

Our **great** start to fiscal year 2022 is reflected in our Q1 financial performance, the key highlights of which are on slide 10.

- We delivered **record** revenue of \$1.1 billion, up 10.6% on a pro forma constant currency basis, and led by our **best-ever** quarter in North America where we continue to see high activity levels across our **top** customers.
- Strong sales momentum was reflected in **record** 12-month backlog of \$3.8 billion which was up \$140 million sequentially and 9.7% from a year ago.
- On the bottom-line, we delivered non-GAAP earnings per share of \$1.20, which was at the higher end of our Q1 guidance range.

Slide 11: Progress in Strategic Domains

Now, let me update you on the recent progress we have made against our strategic imperatives, as presented on slide 11.

To remind you, our growth strategy is **intentional** and **focused**. As industry leaders around the world look to drive growth and monetize 5G, they rely on our market-leading innovation to deliver unparalleled experiences to their consumer and enterprise customers. Our key innovation enablers include:

- **End-to-end cloud platforms and services** that ensure operational agility, scalability and ultimately, cloud at scale
- **Monetization of new 5G services** like ultra low-latency connectivity, immersive entertainment, and connected industries
- **Creating seamless digital experiences** by transforming IT operations and re-inventing user interactions, and
- Delivering dynamic connected experiences with **real-time, automated networks**

Beginning with cloud, I am proud to announce **two** key awards this quarter:

- First, we were selected as **T-Mobile's** partner to shift non-Amdocs applications to the public cloud, thereby expanding our activities in support of T-Mobile's multi-year cloud journey. Additionally, we are very excited to report a multi-year deal with **T-Mobile** to deploy and operate **DataONE**, our data intelligence platform.
- Second, we are thrilled to announce that **PPF Group** awarded us a digital, cloud managed transformation of its next gen business support systems across all lines of business, under which Amdocs will provide its wide set of cloud-native products to be operated on a public cloud as part of a long-term multi-country agreement. This award demonstrates Amdocs' ability to **expand** internationally by penetrating **new logos**, and we look forward to supporting PPF's 18 million subscribers across Bulgaria, Hungary, Serbia, and others.

In **5G monetization**, Amdocs' Openet 5G charging and policy solution was chosen by **Vodacom**, a **new logo** in Africa which we are supporting to enable the quicker launch of new products, services, and tariffs for its operations in Tanzania, Mozambique, and the Democratic Republic of Congo.

- In Malta, we extended an agreement with **Melita Limited** to provide charging solutions that will expand its range of IoT and 5G offerings for consumer and business customers.

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- Additionally, we announced a collaboration with **Samsung Electronics America** to deliver end-to-end 4G and 5G private network solutions to help U.S. enterprises across key industries to unlock **next-generation** use cases and to help close the **digital divide** in hard-to-reach locations.

Turning to **digital modernization**, we are happy to announce **two new North American logos** in Q1, including:

- **Summit Broadband**, a Florida-based service provider which has selected Amdocs for a multi-year deal to uplift their BSS and OSS ecosystem, and
- **Consumer Cellular**, a postpaid mobile virtual network operator from Portland, Oregon which selected Amdocs eSIM solution.
- Additionally, **Vodafone Turkey** selected Amdocs for a **three-year** deal to provide end-to-end quality engineering services that will quickly develop, test and bring to market new products and services for the benefit of its customers.

Moving to **Network Automation**, I am excited to share that **two** tier 1 North American customers, including **Lumen**, have recently elected to **modernize** and **upgrade** on our cloud-native, next-generation 5G network and services orchestration platform.

- Additionally, we today announced a three-year deal with **Globe Telecom** in the Philippines to provide radio access network optimization services to accelerate the expansion of its 4G and 5G networks, and the time to market launching new services.

Finally, let me quickly highlight **Amdocs Media** which continues to expand outside North America.

- In Indonesia, we extended a multi-year agreement with **XL Axiata** which selected our SaaS-based Amdocs **MarketONE** platform to offer its customers seamless access to international, local, and regional content services.
- Additionally, Amdocs recently worked with **Astro**, a leading Southeast Asia Media and entertainment company, to successfully launch new content and broadband bundles, including Netflix, to provide customers with premium and affordable entertainment in a streaming world.

Slide 12: Looking ahead: Providing FY2022-2024 Revenue Growth Outlook

Now, turning to slide 12, and our financial outlook.

Let me begin by addressing the revenue growth projections we are providing today for the three fiscal years 2022 through 2024.

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Last quarter we guided to fiscal year 2022 revenue growth in the range of 6.0% to 10.0% on a pro forma constant currency basis, and we are now projecting annual revenue growth in the range of 6.0% to 10.0% constant currency in 2023 and 2024.

Our **conviction** in this outlook is founded on our technology leadership and the strength of Amdocs' unique business model, from which we derive highly recurring revenue streams, strong business visibility, and durable multi-year engagements supporting our customers' mission critical operations.

- Second, we are encouraged to see a **large** funnel of market opportunity in front of us, the size of **which is continuously expanding**. This dynamic is consistent with our view that global operators are still in the **early innings of a multi-year investment cycle**, driven by **megatrends** such as 5G and the cloud.
- Third, our **strong sales momentum** in recent quarters supports confidence that Amdocs is **well positioned** with the **right strategy** to **monetize** the market opportunity, leveraging:
 - Our innovative, **cutting-edge** technology, which continues to support the future roadmap of our customers and constantly extends our competitive lead in the market
 - Our execution track-record, which is the best in the industry, and
 - **Our highly skilled** and talented employee base, which is focused on delivering value to our customers worldwide.

As a final point, our three-year revenue growth projection **does not** depend on a **material** level of M&A activity.

To summarize our long-term view, we firmly believe that Amdocs has entered a new era of accelerated growth as reflected in the three-year outlook we have provided today.

Turning attention to the current fiscal year 2022, we believe revenue growth is **tracking at the higher end** of our 6.0% to 10.0% guidance range on a pro form constant currency basis given our encouraging start to the year.

On the bottom-line, we are also on-track to achieve pro forma diluted non-GAAP earnings per share growth at the **higher end** of our expected range in fiscal year 2022 outlook, putting us in a strong position to deliver **double-digit** expected total shareholder returns for the **second year running**, including our dividend yield.

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

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Slide 13: Tamar Rapaport-Dagim

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.

Slide 14: Q1 FY2022 Financial Highlights

Turning to slide 14, I would like to echo Shuky's comments that we are off to a **great start** to the fiscal year and we are **very proud** of our Q1 financial performance.

Record Q1 revenue of \$1.1 billion was up 10.6% year-over-year on a pro forma constant currency basis, driven by our **best-ever** quarter in North America with **great momentum** in our top customers. Revenue was above the midpoint of guidance, despite an **unfavorable** impact from foreign currency fluctuations of \$2 million relative to guidance, which **mainly impacted our European region**.

Moving down the income statement, our Q1 non-GAAP operating margin of 17.5% was in line with the **midpoint** of our long-term target range. Compared with a year ago, our non-GAAP operating margin **improved** by 20 basis points, as accelerated R&D investments were more than offset by a focus on operational excellence and the divestiture of OpenMarket.

On the bottom-line, diluted non-GAAP EPS of \$1.20 was at the higher end of our guidance range. Diluted non-GAAP EPS includes a non-GAAP effective tax rate of 19.9% which as anticipated was **above** the high-end of our annual target range of 13.0% to 17.0%.

Diluted GAAP EPS was \$1.07 for the first fiscal quarter, **above** the guidance range of \$0.91 to \$0.99, primarily due to a net gain of 6 cents per share from contingent performance-based consideration in the final amount of \$10 million received in relation to last year's divestiture of OpenMarket.

Slide 15: Leading Indicators and Business Resiliency

Moving to slide 15, **strong** first quarter sales momentum translated to **record-high** 12-month backlog of \$3.83 billion which was up 9.7% from a year ago. On a sequential basis, 12-month backlog was **particularly** strong, rising by \$140 million as compared to September 30. Twelve-month backlog continues to support an expectation for growth on a constant currency basis across each of our three core operating regions in fiscal year 2022.

As a reminder, 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.

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Q1 was also a **record** quarter for revenue from managed services engagements, which grew 5.8% from a year ago, equating to roughly 60% 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 with existing customers. Among the customer highlights this quarter, **BT Group** renewed its relationship with Amdocs for application development and maintenance of non-Amdocs BSS systems in relation to BT's EE brand.

Slide 16: Balance Sheet & Cash Flow

Turning to the balance sheet and cash flow, as you can see in slide 16. DSOs of 79 days increased by 1 day year-over-year and 6 days sequentially in Q1, primarily reflecting higher invoicing levels triggered by a record number of milestone deliveries achieved in the quarter. We also saw a healthy increase in deferred revenue in Q1.

Altogether, we generated normalized free cash flow of \$186 million in the first fiscal quarter.

Overall, we ended the quarter with a strong cash balance of approximately \$869 million, including aggregate borrowings of roughly \$650 million. Our balance sheet is 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. Additionally, we remain committed to maintaining our investment grade credit rating.

Slide 17: Disciplined Capital Allocation

Turning to capital allocation on slide 17.

As you can see in the first chart, we accelerated our buyback program and repurchased \$171 million of our shares in the first quarter, which we believe demonstrates our confidence in the future success of Amdocs.

Overall, we returned \$216 million to shareholders in Q1, including \$45 million in cash dividend payments

Regarding our capital allocations in fiscal year 2022, we remain on-track to generate normalized free cash flow of approximately \$650 million, the **majority of which** we expect to return to shareholders. Additionally, we remind you that free cash flow in the second fiscal quarter is typically lower due to the timing of annual bonus payments.

As an added point, our normalized free cash flow outlook assumes a conversion rate of roughly 100% of non-GAAP net income, which is consistent with our long-term average. Normalized free cash flow also excludes anticipated capex of about \$131 million in relation to the development of our new Israel campus, which remains on track-for completion and move-in by this summer.

Slide 18: Q2 & FY2022 Outlook

Now, turning to our outlook on slide 18.

The prevailing level of macro-economic, business, and operational uncertainty surrounding the magnitude and duration of the COVID-19 pandemic, including its novel strains, remains elevated. The second 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 believe full year fiscal 2022 revenue growth is **tracking at the higher end** of our guidance range of 6.0% to 10.0% on a pro forma constant currency basis. Our outlook assumes revenue growth across all three of our key geographical regions and includes an **immaterial contribution** from the small bolt-on acquisition of DevOpsGroup.

Our annual outlook includes second fiscal quarter revenue within a range of \$1.11 billion to \$1.15 billion, the midpoint of which equates to healthy growth of roughly 7.7% from a year ago.

On a reported basis, we expect full year revenue growth in the range of 3.4% to 7.4% year-over-year as compared with 3.7% to 7.7% previously, which anticipates an unfavorable foreign currency impact of approximately 60 basis points year-over-year as compared with an unfavorable impact of 30 basis points previously.

Moving down the income statement, we anticipate quarterly non-GAAP operating margins to track roughly in line with the midpoint of our annual target range of 17.2% to 17.8%. 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 achieving operational excellence.

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 second fiscal quarter 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.

Bringing everything together, we believe non-GAAP diluted earnings per share growth is tracking at the higher end of our guidance range of 8.0% to 12.0% on a pro forma basis for the full year fiscal 2022.

Likewise, we believe non-GAAP diluted earnings per share growth is also tracking at the higher end of our guidance range of 6.3% to 10.3% year-over-year on a reported basis.

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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

Slide 19: Q&A

Shuky Sheffer, Chief Executive Officer

Thank you, Tamar.

As you can probably tell from our remarks today, we are excited by the great start to the year, our progress across strategic focus areas, and the healthy accelerated growth outlook we have provided for the next three years. With that, we are happy to take your questions. Operator?