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DOX - Q1 2018 Amdocs Ltd Earnings Call

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OVERVIEW:

Co. reported 1Q18 revenue of $978m, diluted GAAP EPS of $0.80 and non-GAAP dluted EPS of $1.06. Expects FY18 reported revenue growth to be roughly 0-4% and diluted non-GAAP EPS growth to be 4-8%, also expects 2Q18 revenue to be $960-1,000m and diluted non-GAAP EPS to be $0.91-0.97.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2018 Amdocs Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the call over to Mr. Matthew Smith, Head of Investor Relations. Sir, you may begin.

Matthew E. Smith - *Amdocs Limited - Secretary*

Thank you, Chelsea. 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 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 SEC, including in our annual report on Form 20-F for the fiscal year ended September 30, 2017, filed on December 11, 2017.

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

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

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

Eli Gelman - *Amdocs Limited - Director*

Thank you, Matt, and good afternoon to anyone joining us on the call today. I am pleased to report the solid start to our fiscal year. First quarter revenue was consistent with the midpoint of our expectations adjusting for currency. Our operating profitability was stable and we delivered another quarter of record 12 months backlog as we levered our reputation of bringing value through consistent project delivery and new product innovation.

In addition to our tight execution, we are committed to investing in the growth engines of the future, an important component of which includes innovation we bring through our acquisition strategies. Along these lines, we're excited to announce a signed agreement to acquire Vubiquity, a leading provider of premium content services and technology solutions that will further expand our capabilities in the world of media and entertainment, which is increasingly converging with our traditional domain of communications.

I will expand on the strategic rationale for this move later in my remarks, but let me first review our quarterly activities on a regional basis.

Beginning with North America, first quarter performance was in line with our expectations, primarily in relation to the slowdown in AT&T's discretionary spending we anticipated and shared with you last quarter and the positive momentum we continue to see in Pay TV. In this context, we added to our growing list of Pay TV-related projects with a new award at Rogers Communications in Canada to provide next-generation customer experience platform. Our integrated and scalable software solution will enable Rogers to deliver a consistent and high-quality customer experience with the latest innovation in voice, video, data and other connected devices in the home.

Regarding the outlook in North America, let me first comment on AT&T where the overall level of spending in the next few quarters seems more or less in line with the assessments we made in the beginning of our fiscal year. At the same time, we now see few more opportunities in areas relevant to Amdocs than we did before and we are working diligently to win them. At the same time, let me remind you that new discretionary projects can take time to come to fruition and that we cannot assure any new wins.

Regarding broader market conditions in North America, the convergence of wireless and Pay TV remains a central theme. T-Mobile is entering the Pay TV market with Layer3 and DISH Network has reorganized to better focus on its emerging wireless business. At the same time, the regulatory environment appears more relaxed following the repeal of the net neutrality rules. Market dynamics such as these create long-term opportunities to support the strategic initiatives of our North American customers. We remind you, however, that our outlook is subject to uncertainty resulting from customer consolidation activities in progress or which may be contemplated for the future. And our quarterly trends remain likely to fluctuate in the near future.

Moving to Europe. We delivered another quarter of solid growth as we focused on project execution and the conversion of new digital modernization awards, like those that we have recently won at Mtel in Bulgaria and Altice SFR, a former Comverse customer based in France. Additionally, we are pleased to report that 3 Ireland, a subsidiary of Hutchison, selected Amdocs' artificial intelligence, advanced analytics and machine learning platform to provide personalized and practical customer experience as part of their digital transformation journey.

Regarding the full year outlook, we believe Europe is on track to grow faster than the corporate average in fiscal 2018 as we lever the improved market position we have established over the last few years. We do, of course, remind you that the quarterly trends may fluctuate given the project orientation of our customer activities and the macro and political dynamics of the region.

Turning to the Rest of the World. Our quarterly performance reflects normal fluctuation in customer activities and included the successful deployment of a billing transformation program for the True -- for True Corporation in Thailand that will enable the support of consumer and enterprise customers on a single multiplay platform. I believe our reputation for advanced technologies, project execution and delivering customer value contributes to our high win rate across all regions, including in the rest of the world.

A good example lies in the Philippines, where, last week, PLDT and its wireless subsidiary, Smart Communications, signed a new $300 million managed transformation agreement with Amdocs. We believe this 7-year award is significant for several reasons: first, PLDT is a former Comverse customer that has chosen to modernize, manage and transform its IT systems and business processes using Amdocs solutions; second, PLDT plans to adopt our latest advanced digital technologies, including artificial intelligence and machine learning; third, this award builds on the experience we have gathered from our existing presence in the Philippines wireless market and the sophisticated IT infrastructure we have established to support customer activities in Manila and across Southeast Asia region; fourth, this award provides further proof that our Managed Services offering is gaining acceptance in Southeast Asia following our previously announced agreements with Vodafone India and Bharti Airtel in the last 2 years.

Looking ahead, we believe Rest of the World is also on track to grow faster than the corporate average in fiscal 2018. But we remind you that the quarterly trends may fluctuate, primarily due to the fact that we have project -- product orientation for our customers' engagement in Southeast Asia and in Latin America.

With my regional commentary complete, let me update you on 3 important strategic initiatives: our first -- first, our progress in network function virtualization, NFV; the planned acquisition of Vubiquity we announced today; and our adoption of new methodologies and technologies to better serve the market needs of the near future.

Beginning with NFV, over the last week we announced that Bell Canada has successfully implemented the first network automation use case in production in order to enable the much faster introduction of new services for its enterprise and consumer customers. This use case leverages the Linux Foundation's Open Network Automation Platform, or ONAP, where Amdocs was one of the original coauthors. As Bell's strategic partner for the ONAP, this successful deployment demonstrates the knowledge we can bring to our other NFV customers, like AT&T, Comcast and Orange. Moreover, we believe that the steady progress we are making supporting the NFV activities of our early adopter customers will encourage others to follow in due course.

As a further comment, we are also excited that leading service providers, such as Verizon, are continuing to align on ONAP, as we believe this will help to drive adoption of ONAP as eventual industry standards.

Next allow me to address today's exciting move to deepen our capabilities within the media and entertainment industry through our planned acquisition of Vubiquity for $224 million in cash. Based in Los Angeles, Vubiquity is a provider of premium content services and technology solutions, which upon closing, will expect to -- we expect will contribute annualized revenue of approximately $100 million for Amdocs. Let me take a moment to elaborate on the strategic rationale for this move.

First, we are increasingly -- we see increasing convergence between traditional wireless and Pay TV distributors, content owners and large OTT web players. AT&T acquisition of DIRECTV and proposed merger with Time Warner and as well as Comcast's purchase of NBC Universal and its move to accelerate wireless services to its customers are prime examples of this. By acquiring Vubiquity, we believe Amdocs will be uniquely positioned to address the requirements of distributors, content owners and web players as the lines between each become increasingly blurred.

Second, media and entertainment companies like Disney, HBO and Time Warner are reaching out directly to the end users with direct-content-to-consumer business models or what is called D2C, direct-to-consumer. This trend requires new systems to support an improved customer experience that we believe Amdocs is well positioned to provide.

Third, Vubiquity represents the natural extension of our existing capabilities in multiplay customer experience systems and extends our move in the media and entertainment, which we began with the acquisition of Vindicia's cloud-based subscription billing platform for digital media and over-the-top content offering more than a year ago. Overall, Vubiquity reflects the execution of our strategy to expand in the media and entertainment industry and we believe it is a disciplined and timely use of capital.

Finally, I would like to emphasize our belief that Amdocs is one of the world's most advanced companies in high-end enterprise software. Indeed, we are pushing industry boundaries on several fronts, including the early adoption of few new tools and IT methodologies such as micro services and DevOps that we expect will accelerate time to market of new products and improve the return on infrastructure investment for the benefits of our customers. A good example is our new Amdocs DigitalONE platform for customer care and commerce that is based on micro services architecture and which can be deployed regardless of the business support system they have in the back end. More specifically, we believe DigitalONE will provide communications and media companies with the business agility to offer new digital experience to their end users at the same pace of native Internet companies like Amazon.

To wrap up, we are pleased with our progress in the first fiscal quarter. Our record 12-month backlog and recent wins continue to support our expectations for a stronger second half. We remain committed to returning approximately 100% of our free cash flow to shareholders this fiscal year. And we are on track to deliver full year diluted non-GAAP earnings per share growth within the previously guided range of 4% to 8%.

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

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

Thank you, Eli. First fiscal quarter revenue of $978 million was at the high -- sorry, at the midpoint of our guidance range of $960 million to $1 billion after adjusting for the negative impact from foreign currency fluctuations of approximately $2 million relative to the fourth fiscal quarter of 2017.

During Q1, to support our digital strategy, we acquired projekt202, a leader in experience-driven software design and development, based in the U.S., that helps large-scale organizations like Southwest Airlines and Mercedes-Benz Financial Services to navigate complex digital transformations. projekt202 was acquired for $54 million in cash, and the revenue contribution for the quarter was immaterial.

Our first fiscal quarter non-GAAP operating margin was 17.3%, an increase of 10 basis points year-over-year and in line with the higher end of our long-term target range of 16.5% to 17.5%. Below the operating line, non-GAAP net interest and other income was $0.1 million in Q1, primarily reflecting foreign exchange movements.

For forward-looking purposes, we continue to expect the non-GAAP net interest and other expense in the range of a few million dollars quarterly due to foreign currency fluctuations.

Diluted non-GAAP EPS was $1.06 in Q1, above the guidance range of $0.94 to $1. Our non-GAAP effective tax rate of 8.7% in Q1 was better than our expected annual range of 13% to 17%, primarily due to the release of tax reserves connected with the funding decision for the construction of our new campus in Israel. Additionally, our diluted non-GAAP EPS excludes an immaterial one-time benefit relating to the new U.S. tax legislation, which took effect in December.

Diluted GAAP EPS was $0.80 for the first fiscal quarter, above the guidance range of $0.66 to $0.74, including the benefits of a lower GAAP effective tax rate. Additionally, our diluted GAAP EPS includes any material one-time benefit relating to the new U.S. tax legislation.

Free cash flow was $113 million in Q1. This was comprised of cash flow from operations of approximately $165 million, less $52 million in net capital expenditures and other, of which $13 million related to the multiyear development of our new campus in Israel. Normalizing for this capital expenditure, free cash flow was roughly $126 million in the first fiscal quarter.

DSO of 86 days increased by 5 days quarter-over-quarter and most primarily attributable to the timing of invoicing milestones with several North American customers towards the end of Q1. Additionally, we remind you that this item may fluctuate from quarter-to-quarter.

Total unbilled receivables increased by $28 million as compared to the fourth fiscal quarter of 2017. Our total deferred revenue, both short and long term, decreased by $3 million sequentially in Q1. The net movement in unbilled receivable and total deferred revenue reflects our high level of transformational project activity and resulting timing differences between revenue recognition and the invoicing of customers during the fourth fiscal quarter. Our cash balance at the end of the first fiscal quarter was approximately $966 million.

Our 12 months backlog, which includes anticipated revenue related to contracts estimated revenue from Managed Services contracts, letters of intent, maintenance and estimated ongoing support activities was $3.26 billion at the end of first fiscal quarter, up $10 million sequentially from the end of prior quarter.

During the first fiscal quarter, we repurchased $120 million of our ordinary shares. In total, we have, as of December 31, more than $900 million of authorized capacity for share repurchases that is comprised of $136 million remaining under our current authorization of $750 million, an additional $800 million authorized pursuant to our November 2017 share buyback program to be executed at the company's discretion going forward. That additional authority does not have a stated expiration date. As a reminder, we will execute our buyback program at the company's discretion going forward and we'll retain the flexibility to vary the level of share repurchase activity from quarter-to-quarter, depending on the factor such as the outlook for M&A, financial markets and prevailing industry conditions.

Now turning to our outlook. We expect revenue to be within the range of $960 million to $1 billion for the second fiscal quarter of 2018. Embedded within this guidance, we anticipate a negligible sequential impact from foreign currency fluctuations as compared to Q1. For the full fiscal year 2018, we are reiterating our expectations for total revenue growth within the range of roughly 0% to 4% as reported and roughly negative 1% to positive 3% on a constant currency basis after adjusting for positive impacts from foreign currency fluctuations of about 1% year-over-year.

As we've explained last quarter, our outlook embeds a slower start to the fiscal year, followed by a strong second half and is supported by the visibility of our record 12 months backlog and recent wins. Note that our second quarter and full fiscal year 2018 revenue outlook does not incorporate our planned acquisition of Vubiquity since the transaction is not expected to close until later in our fiscal second quarter.

For your long-term modeling purposes, however, we expect Vubiquity to contribute revenues of tens of millions of dollars in fiscal 2018, depending on the closing date, and approximately $100 million in the first 12 months after closing.

Additionally, our revenue in fiscal 2018 continues to incorporate in the outlook and expect drag of about 0.5% from directory, which we anticipate will continue to decline in the full year. We continue to expect our non-GAAP operating margins to be within the range of 16.5% to 17.5% in fiscal 2018. We expect our quarterly non-GAAP operating margin to fluctuate at the higher end of the range in fiscal 2018, including after the planned acquisition of Vubiquity is closed.

We expect the second fiscal quarter diluted non-GAAP EPS to be in the range of $0.91 to $0.97.

With respect to Q2, we expect our non-GAAP effective tax rate to be above the high end of our annual target range of 13% to 17%. Additionally, our second fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 145 million shares and the likelihood of a negative impact from foreign currency fluctuations in non-GAAP net interest and other expense.

We excluded the impact of incremental future share buyback activity during the first -- sorry, during the second fiscal quarter as the level of activity will depend on market conditions.

For the full fiscal year, we'll continue to expect to deliver diluted non-GAAP EPS growth of 4% to 8%. Our full year EPS outlook does factor in expected repurchase activity over the year. We expect our non-GAAP effective tax rate to remain within the same target range of 13% to 17% for the full fiscal year 2018. Our second fiscal quarter diluted non-GAAP EPS guidance and our full year fiscal 2018 diluted non-GAAP EPS growth guidance does not incorporate any impact from the planned acquisition of Vubiquity. Based on our current estimates, however, we expect the impact of the acquisition will be neutral to our non-GAAP earnings per share in fiscal 2018 and accretive thereafter.

As to the impact from GAAP results, this will not be known until after Amdocs completes the purchase price allocation for the acquisition. Amdocs is expecting core acquisition-related expenses related to operating adjustments, restructuring charges and other acquisition-related costs.

To assist you in your modeling, we remain on track to generate free cash flow of roughly $400 million in fiscal 2018. This takes into account the incremental capital expenditure in fiscal 2018 of up to $100 million associated with the multiyear development of our new campus in Israel, of which we spent already roughly $13 million in the first fiscal quarter. We expect that the vast majority of the remaining $100 million to be deployed in Q2.

Additionally, we remind you that free cash flow in the second fiscal quarter is typically lower due to the timing of annual bonus payments. Normalizing for this capital expenditure, we continue to expect free cash flow of roughly $500 million in fiscal 2018, approximately 100% of which we plan to return to shareholders through our ongoing share repurchases and dividend program.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Tom Roderick with Stifel.

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

Yes. Matt Van Vliet, on for Tom. I guess, really wanted to dig into some of the North American trends and how you see the next-generation ONAP possibilities sort of outweighing some of the declines in discretionary spending for maybe some of the legacy solutions at your North American carriers?

Eli Gelman - *Amdocs Limited - Director*

So it's not only ONAP that is going to compensate for some discretionary. First of all, we see a strong demand on the Pay TV industry in North America. And we basically now won 6 out of the 6 bids that have been out there in the last probably 1 year, 1.5 years. And as we execute this project, we see it as a growth component in our North American market. The NFV comes on top of it. The NFV is due to early adopters like Bell Canada and AT&T, of course, but also to Comcast and other carriers that are participating in this trend. And I would say that we have a unique proposition, not only that we are one of the cocreator of ONAP, we're also the only people that have experience in executing and turning it into reality and into production. And we are very pleased with the rate of success that we have with the use cases. You have to remember that 1 year, 1.5 years ago, there was still a debate whether NFV is reality and whether it can be done, and is it feasible? I think all of that is behind us and behind the industry. Last but not least, when we are getting into the new dynamics of the industry, which is completely unknown right now, and I'm not guiding to that, but I'm just saying that the level of [entropy], the level of dynamics is increasing. When you talk about T-Mobile going into video through Layer3 and then DISH going into mobility, Charter and Comcast going to the mobility strategy and they have many other components. And on top of all that, the new acquisition will allow us to get and participate into -- in the entertainment and media space. And all of the above are converging. So this level of dynamics is good for business. That's kind of the description of dynamics in North America.

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

And then I guess as a follow-up to that, looking at potential buildout of a 5G network and some reports in the last few days that there's potential for the administration to try to push through maybe a national network instead of the carriers building it out. How might you play into that overall network buildout? And would one method of buildout versus the other, whether it's a carrier versus maybe a more government-led benefit Amdocs more or less?

Eli Gelman - *Amdocs Limited - Director*

So we are not so sensitive to whether the industry will build it or the government will build it. And this is much more a concern for the network equipment providers, the people that build the base stations and some of the backhaul. We have quite a lot of tools to manage this deployment and we can sell it to either, or to any builder, let's put it this way. And mostly, we want a 5G network erected because we are coming after this network and we monetize it. We have the carriers to offer new services and monetize the 5G network. So we are much more sensitive, whether there will be a 5G network or not and we believe there will be a 5G network this way or another. But we are not that sensitive who's been negating in what measure the -- in what way they're building it.

Operator

And our next question comes from the line of Jackson Ader with JPMorgan.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

First question, on the Philippine customer that you signed, and I think it was announced late last week, do you have any visibility as to the major milestones and when you would expect to start recognizing revenue from that deal in the -- maybe in the next 9 months, 12 months and thereafter?

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

So this is a managed transformation deal which is very exciting for us because it includes both modernization, including, as we said, many of our new elements as well as Managed Services. And we are taking them to this journey from day 1 through the Managed Services, meaning taking over responsibility for legacy. And later on as the new stack is being deployed, we are continuing to manage this for them. So it will take some time to take over the responsibility given the transition of mission-critical systems, responsibility to operate et cetera, et cetera. We're already starting the scoping sessions, the high-level design sessions with the customer. So I would expect that to translate to revenue more towards the second half of the year and, of course, later on as we go into fiscal '19 and the following years.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Fair enough. And then, Tamar, there was some discussion about the tax benefit in this quarter and then the expectation for the tax rate next quarter was expected to be above the 13% to 17%. Is that correct on a non-tax -- or on a non-GAAP tax rate?

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

Yes. On overall basis for the year, we keep on track with the original guidance we have of 13% to 17%. There are some fluctuations between the quarters. This quarter, it was actually a low tax rate; next quarter will be somewhat higher. But if you look overall on average for the year, we are continuing to track in the regular range of 13% to 17%.

Operator

And our next question comes from the line of Ashwin Shirvaikar with Citi.

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

Question on Vubiquity. It seem strategically important given what your clients are doing. Can you potentially review sort of financial information on Vubiquity in terms of revenue growth on top of that $100 million base that you mentioned, or any seasonality, margins, client base overlap? And I want to clarify where they sit in the value chain. It seems like they're in between the creators of content and the content use endpoints. Or are they involved in the creation of content themselves?

Eli Gelman - *Amdocs Limited - Director*

So Ashwin, this is a scarce asset that we are quite excited to marry with and join into the Amdocs family for several reasons. But I'll start from answering your second part of the question. Today, if you think about a triangle, the content owners and the content creator on one hand, let's call them A, the B point is the distributor, the aggregator, or the Comcast of the world and Cellcom TV of the world and so on and so forth, and the third one is the -- let's say, B, and the third one is the consumers. They primarily sit between A and B. That is to say they take -- they do not create content, they create content -- that they take content from I think 630 sources, including all the major studios. Very trusted (inaudible) to the studios, including the independent studios, independent creators. And they would take care of this content and the management of this content through the monetization, through the distributors and the content distribution aggregators. That is to say they will create the metadata that goes along with the content. They will add dubbing or subtitles, they will be able to oversee the digital rights, and the digital rights management is a very important component of distributing digital content. So they are not creating it. They are basically just allowing this content to reach many, many, many other distribution. Now on one hand, they have relationship with 630 sources; and on the other hand, about double it, about 1,200, more than 1,000 distributors, aggregators, you name it, traditional ones, wireless companies that add the video, content and Pay TV companies, traditional ones that you know, including over-the-top companies like -- even Netflix and others. So they make sure that this ecosystem is balanced. And they have some activities between the distributors and the customers. The one thing that we believe that we will be able to add, as time goes on, is taking Amdocs asset, combining it with their assets and then we can take or help all these content creators to go back to consumers, which is kind of the trend or the megatrend of the industry. So again, we cannot create this trend, as I'd like to call it, the waves, but we can surf the waves, we can use this better than maybe most others. So that's kind of the way we see it and that's why we are so excited about it. So we buy through this acquisition the knowledge, the people, the -- and technology that -- and luckily for us, all these technologies, the most advanced one, it's microservices, cloud native, platform-based strategies. So we will accelerate it, but we don't need to fix it or something. Now if you can consider the outreach that we have and the presence that we have with all these carriers, the top ones around the world, you can imagine that while we're excited about taking it into our customers, something maybe they could not have done up until now. So altogether, highly excited. We were working on this thing for a long time, we were looking to the right angle and then we are glad that we got it.

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

Great. And let me ask a second question. But if you could also go back to the -- any incremental financial information that you could provide as well. But the additional question was on the long-term effect of the tax reform. I understand what's going to happen in the next couple of quarters here. It's going to be the end of this fiscal year. But longer term, in your tax rate, I guess, moving upper teens or closer to the 21% rate or -- and how should we think about that?

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

So I'll add a few points of color on the Vubiquity financial attributes and then address the tax question. So Vubiquity, as you can understand from the message, that we think it will be a neutral impact on EPS in fiscal '18. It's coming with a low margin to start with, and we believe we can build it up a long time quite quickly, given both top line synergies and the cost structure synergies we've seen in front of the opportunities. And definitely, with the synergies that Eli talked about and the fact that we think there are some synergies to be gained here, we can drive from the $100 million base of revenue over time upward to gain higher level of top line. Now on the tax reform. As you know, we are a global company. Yes, the U.S. is one of our major jurisdictions, but not the only one. So it's an overall combination of different things that are happening. And as you know, there are many initiatives going on globally these days around taxation. We talked in the past about [VATs], which is the initiative done by -- through the EU. Now we have the tax reform in Israel. There are some contemplated changes in other countries as well. So we're factoring all of these in when we're looking into the long term. Now specifically, on the U.S. tax reform, we are still evaluating the implications. I feel it's a bit premature to get into too many details. But I think that for now, we should think about the range of 13% to 17% overall as the right place to take into your models. As soon as we have any news, whether it's related to U.S. tax implications or otherwise and from other places in the world, of course, we will update.

Operator

And our next question comes from the line of Shaul Eyal with Oppenheimer.

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

Good afternoon, Eli, Tamar, Matt. Eli, I've listened to your comments about AT&T. It sounds probably a little better than the last quarter. Can you provide us with more color on what you're seeing from AT&T on your discretionary or maybe even nondiscretionary spending?

Eli Gelman - *Amdocs Limited - Director*

So Shaul, as always, you listen carefully. Look, it's really hard to measure it week by week. But basically, what we are trying to say that the assessment that we had at the beginning of the year are more or less what we see in the field, which is good. It's not always easy to assess when you have so many moving parts. So as a base, we see this. And on the overall business environment, we see a lot of activities in AT&T and they are going into many dimensions and many areas. And when we align those areas and these strategic directions and the type of engineering and project that they are going to need, we find a lot of them relevant to Amdocs. So overall, we -- that's what we need. Obviously, we cannot guarantee anything, but we are going to work diligently and try to win some of this project and some of this -- and most of them are discretionary. And the nondiscretionary thing operating there, AT&T Mexico or mobility or whatever, that's usually when we see less fluctuation, because AT&T is a very active company and you don't necessarily save on those areas. But on discretionary, that was the concern we had. We estimated properly, and now we see more opportunities, which is, yes, you are right, is good, is better. And the rest of it, we'll see it through the execution, but it's in our numbers, including the acceleration of growth for the second half.

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

Got it, got it. And probably sticking with North American carriers. So also, I think we've all listened to your ONAP comments in the Verizon context. I think it also is encouraging. Hypothetically speaking, Eli, is there a potential backdoor into Verizon probably being the most notable absentee from your pristine list of North American billing and OSS customers? Maybe doing that though ONAP and NFV capabilities and activities.

Eli Gelman - *Amdocs Limited - Director*

So we don't know yet. But I believe that the fact that Verizon that -- it's a new thing that Verizon joined ONAP and will support ONAP. It's a new thing. It's exciting for us. In theory, anywhere they look for help should end up with people like us, and probably us, because there is very little knowledge elsewhere. We are the most advanced company in terms of creating these products and implementing these products. So I'm sure that everybody and his wife would say that they know something about it, but in reality we have, by far, by far, better skills and capabilities. So if Verizon is going to execute and not only talk about ONAP, but they will start having all kind of use cases and they would look at what AT&T is doing and what Comcast is doing and what Bell Canada is doing, any way they look, they will find Amdocs. So yes, potentially, maybe -- so it's a backdoor, it's a front door, but that might be a potential way to get into Verizon through the angle of the NFV. And we will have a lot of support from AT&T to do that. That's why I know for sure because AT&T for them is more important that there will be North America adoption to ONAP, rather than to see as being the differentiator of the network. Maybe in the future it will change, but right now, any implementation of ONAP, especially in North America, is exciting for us and for AT&T.

Operator

And our next question comes from the line of Ramsey El-Assal with Jefferies.

Ramsey Clark El-Assal - *Jefferies LLC, Research Division - Equity Analyst*

I wanted to ask you about your NFV Bell Canada implementation. In the context in which potentially you're seeing any kind of further crystallization or clarity in the revenue model around NFV, if you could just provide us with your latest thoughts about how monetization of NFV for Amdocs sort of work over time. I know it's a pretty broad and forward-looking question, but is there any way -- your thoughts would be appreciated.

Eli Gelman - *Amdocs Limited - Director*

Ramsey, it's a very fair question. It's evolving as we speak. And we see actually already few different models around the world. The one thing for sure is that we monetize the services around NFV. It has nothing to do with the ONAP or other -- even open source component. Implementation of this very complex operating system, if you like to call them this way, because ONAP is basically an operating system for the network, the big one of the network. So the unique skills that we have can be monetized around services. These are very expensive "people" but very, very knowledgeable. So that's one component of it. The second one is what we call the enterprise version of ONAP. In other words, like in other cases like UNIX or Linux or whatever, you don't really download open source and start using it. This is a very dangerous thing to do. It gives the flexibility that you may find different people that understand the topic if it's an open source. But in reality, you would need to have what we call the enterprise version of it, Red Hat model. That is to say, you would sell capabilities that are in the open source that are part of the add-ons and operational features that are not in the open source, and that's another source for us for monetization. And the third one is the fact that we can actually, like a beat, we go from one flow to the other, the fact that we learn from one use case in Europe and then can take this knowledge into North America, and then from North America you can take it to Latin America. The fact that we are global and we're, actually, as we speak, having experiences in NFV around the world, I believe will give us an edge that is far stronger than any other competitors in the field. Maybe the last one, I would say, is that it's an ecosystem. We are kind of the brain of the network, but we are working with, at least, it depends on the project, with at least 20 different smaller companies, sometimes large company but smaller function of the virtual VNF, like the virtual IMS, the virtual EPC, the virtual probing and so on and so forth. So the fact that we integrated this integration functionality of all these smaller companies that provide component into the ecosystem, it's in a ways like an SI for the network. Think about it this way. So that's something also. But as I said, it's evolving, it's progressing. I wish it would progress faster, but it's faster because we are anxious to show the capabilities, not because I believe that the industry can move really faster. It's just the tectonic shift of the industry when you think about it.

Ramsey Clark El-Assal - *Jefferies LLC, Research Division - Equity Analyst*

That very helpful. One more for me. Could you, again, walk us through your historical experience with working through an AT&T merger cycle? I know premerger, obviously, there's a slowdown. If the merger goes through, do you see the immediate snap back of spending or is there a pause, and then conversely, if the merger falls through, would spending snap back quickly or is there a long period of readjustment? I'm trying to kind of game out not the outcome or even the timing of a possible resolution, but just the different sort of scenarios in terms of the spending cadence related to each one.

Eli Gelman - *Amdocs Limited - Director*

Yes, it's a very good question. Look, for whatever it was, historically, AT&T always believe in consolidation of vacant systems in order to help the -- to facilitate the smoothness of the service level of whatever they are acquiring. So this not very common around the world. This is the right way to do it. So usually what you see is that they have some kind of a slowdown prior to the acquisition, kind of saving money, making sure that they are not spending on something that may change later on once they have the assets and so on and so forth. And we have seen it in -- with the DIRECTV, with Cricket, even with other components of the business and that's part of what we see today. Specifically, on the Time Warner deal, the dynamics might be a little bit different because it's a little bit farther away from their core business, from the normal cause of doing business and so forth and if it's a different unit. They are going to create -- and for that reason, we did not build any revenue into our guidance in '18 or '19 for that matter for project that may come maybe in the future from the outcome of the acquisition itself. But we expect, once the acquisition is done, that the discretionary expenses of the core AT&T, which is also under some slowdown pressure, that may spring back. And whether it's the same level or different level, it's really hard to know. How fast it goes? Look, this is a very large company, so everything is measured in months and sometimes quarters, not in days.

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

Yes. The new element we have now with Vubiquity acquisition is obviously the fact we conserve both the, let's call it, traditional side, the connectivity side of the AT&T, as well as the media and entertainment side that they are contemplating of buying. And the connection of both to create new business models, et cetera, is very exciting in light of the Vubiquity acquisition.

Eli Gelman - *Amdocs Limited - Director*

And in the meantime, because we don't want to wait until AT&T sort out these things with the government and cohorts or whatever. I mean, I never understood why it happens; but whatever it is, it's happening. So we basically go and take our energy with AT&T into NFV and into Mexico and into enterprise and into 20 other things that you can still do under the notion that discretionary expenses are a little bit under pressure. That's kind of the way to describe the overall situation.

Operator

(Operator Instructions) And our next question comes from the line of Will Power with Baird.

William Verity Power - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay, great. Yes, maybe sticking with North America. The other big merger scenario last year had been Sprint, T-Mobile. Obviously that transaction didn't happen. I'm just curious, now those 2 are heading down to a separate independent paths, have you seen an improvement in spending there? And what does -- what did the outlooks look like on that front? And I guess, kind of tied to that, follow up on the tax reform question in the U.S., are you seeing any of the carriers considering opening their wallets a little bit more given new expensing rules, better free cash flow? Or is it still too early on that front for potential projects?

Eli Gelman - *Amdocs Limited - Director*

So Will, on the first -- second part of the question, no doubt that both companies had to go to -- back to the drawing board and decide what to do with their future, because both of them were quite busy with contemplated M&A that did not go through. And we don't believe it will come back anytime soon, I mean, like, in the past, if you've heard about it coming in and going out every couple of months. But I really think that they made a point that they are not going to come together. So yes, what we see is that both companies, each one of them, is doing it separately and in a different way. But each one of them is designing certain other ways to expand and to grow. Each one of them have to invest in the network and in their customer experience. And so T-Mobile, for example, already announced, it's public, they want to go into the video and Pay TV type service. We hope that this, again, Vubiquity acquisition might be relevant to what we can offer them. But that's, at least, one component of the strategy that they announced already. But I would imagine, there would be other components. Sprint does the same. They already announced accelerated rollout of network elements. As you remember, we have quite a lot of assets in the network side as well, from radio access network optimization, to backhaul optimization, to deployment of new services, and now NFV, of course, from provisioning and going into [assurance] as well. So that's the best color I can give you without giving you delicate information that we are exposed to. But both of them are either in the late stages of the drawing board or the execution of new strategies, and we are trying to make sure that we are relevant in any way that would go forward. In terms of the tax reform and whether it changed the dynamics, it's too early to say. We didn't see people jumping all up and down, saying, "Now, we have more money. Well, I want to spend it." No, I don't think it's a trend yet or that if this is a trend that it's of any significant size that's worth mentioning.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back to Mr. Matthew Smith for closing remarks.

Matthew E. Smith - *Amdocs Limited - Secretary*

Thank you very much for joining our call today and for your continued interest in Amdocs. We look forward to hearing from you in the coming days. If you do have any additional questions, please give us a call at the Investor Relations group.

And with that, have a great evening, and we'll conclude the call.

Eli Gelman - *Amdocs Limited - Director*

Thank you.

Operator

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