Co. reported 3Q16 revenue of $930m, diluted non-GAAP EPS of $0.90 and non-GAAP operating margin of 17.2%. Expects 4Q16 revenue to be $920-960m and diluted non-GAAP EPS to be $0.85-0.91.
CORPORATE PARTICIPANTS
Matt Smith Amdocs Ltd - Head of IR
Eli Gelman Amdocs Ltd - President & CEO
Tamar Rapaport-Dagim Amdocs Ltd - SVP, CFO, Amdocs Management Limited

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PRESENTATION
Operator

Good day, ladies and gentlemen, and welcome to Amdocs' third quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, today's conference is being recorded. I'd now like to introduce your host for today's conference, Mr. Matt Smith, Head of Investor Relations. Sir, please go ahead.

Matt Smith - Amdocs Ltd - Head of IR

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 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 reports on form 20-F for the fiscal year ended September 30, 2015, filed on December 10, 2015, and our form 6-K furnished for the first quarter of FY16 on February 16, 2016, and for the second quarter of FY16 on May 17. 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 for me today are Eli Gelman, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Chief Financial Officer. With that I'll turn it over to Eli.

**Eli Gelman - Amdocs Ltd - President & CEO**

Thank you, Matt, and good afternoon to everyone joining us on the call today. We are pleased with our performance in the third fiscal quarter during which we remained laser-focused on delivering consistent execution across all dimensions of our business. Our sense of momentum was strong and we sustained a high win rate on major transformation projects across various product lines and geographies.

We leveraged the capabilities of our delivery team to bring some of the industry's most complex projects into production. And we delivered operating margins and diluted non-GAAP earnings per share consistent with the high-end of our guidance. Let me provide some regional color with respect to the Company's activities in Q3.

Beginning with North America, sequential performance showed ongoing signs of stabilization and included a stronger pace of discretionary spending in AT&T, along the lines we discussed with you earlier in the fiscal year. Regarding the broader business condition in North America, we are currently seeing some differences in the demand dynamics between the wireless and pay TV operators.

In wireless, intense competition among cooperators continues to present opportunities for Amdocs to support our key customers. At the same time, the operators need to manage the imbalance between pressure on ARPU and the investment in costly infrastructure and spectrum auction, which creates some challenges for the operators. In Pay TV, we continue to see encouraging signs that North America operators are finally contemplating an IT transformation to improve customer experience in service agility.

In this context, we are excited to report that some of our activities are translating to formal customer awards. Specifically this quarter, a leading North American multiple service operator, MSO, selected to transform on a new stick of Amdocs solution to address the growing needs of its enterprise customer segment. This customer decision is consistent with our long-held view that the paid-TV industry is in the beginning of a transformation cycle. As such, we believe that our other operators will eventually modernize their IT for similar reasons, to improve customer experience, to increase service agility, and in some cases, to facilitate post-merger system integration.

To summarize North America, we believe Amdocs is well-positioned to benefit as opportunities arise in paid TV and in wireless markets. To remind you, our outlook remains subject to outcomes of market dynamics including consolidation activities, which may be yet announced among wireless and pay TV operators.

Moving to Europe, sequential trends reflected the anticipated ramp-down of certain projects, but overall, our year-to-year performance remained strong and we continued to build on our momentum at Vodafone Group Supporting at multiplying strategy, Vodafone Germany selected Amdocs for digital transformation of its sales channels across mobile, fixed, paid TV and Internet lines of businesses to deliver a simplified product bundling, improved sense of performance and a consistent customer-ordering experience.

In terms of our outlook, Europe has emerged as an important growth engine this fiscal year. Global trajectory remains positive, although we remind you that our quarterly trends may exhibit lumpiness giving the sector such factors such as project timing and foreign-exchange fluctuations. Regarding the UK recent decision to leave the European Union, we do not expect to see an immediate impact on our regional activities, although we are monitoring the post-Brexit environment closely.

Turning finally to the rest of the world, we delivered another strong quarter and farther expanded activities with some of the region's largest operators. Demonstrating our strengthening relationship with the Singtel group, we signed a four-year service framework agreement with Globe Telecom designed to accelerate innovation through strategic consulting and ongoing IT improvements. Overall, the rest of the world is on track to deliver strong double-digits revenue growth in FY16.

Looking further ahead, we expect growth to continue in the rest of the world, although not necessarily at the rate we have enjoyed in the recent quarters. Additionally, we believe that the pace of growth is likely to be stronger in Southeast Asia Pacific than Latin America.
Now with my regional summary complete, I would like to update you on some of our long-term strategic initiatives. Firstly, regarding our M&A activity, we recently marked the one-year anniversary of our acquisition of Comverse BSS assets. At the time we closed this transaction, we said that our first priority was to ensure business continuity and to support customer relationships that we acquired. We’re very encouraged by the progress we have made with this regard.

Maintenance renewals are largely complete and customer retention levels have been very high. In many cases, agreements have been extended for multiple years, which we believe is attributed to the operating stability and incremental value we can provide. For instance, BSNL, one of India’s largest communication and broadband service providers, has recently renewed its Amdocs scan and billing software maintenance contract for another five years.

Moving forward, we remain focused on growing the pipeline of opportunities with the former Comverse customers. This is a continuous process and we have progressed over the last three quarters and we expect to make further headway in the coming year as we bring our superior range of revenue assurance and fraud-management solutions are proving highly complementary to our existing service capabilities.

Additionally, we would like to update you on our recent progress in the area of network function virtualization or NFV. Last quarter, we told you that AT&T had selected Amdocs as the leading partner to build key components of the domain 2.0 software program and we have followed this today by announcing more details regarding our involvement in this highly sophisticated initiative.

First, Amdocs is uniquely positioned as the co-creator and integration partner for AT&T, enhanced control orchestration, management and policy architecture program, more commonly referred to as ECOMP. ECOMP is designed to be a highly sophisticated engine that will operationalize and commercialize network function virtualization services, and it is the cornerstone of the domain 2.0 program under which AT&T plans to virtualize 75% of the network by 2020.

Second, Amdocs has the right to market to the entire solution globally and to offer an end-to-end suite of functions and related services capabilities. Third, certain components of the ECOMP platform will be made available in open source in order to drive worldwide industry awareness and to expand the ecosystems of developers and operators.

To wrap up, we are encouraged by our recent sales momentum and record backlog. We are laser-focused on our execution and our profitability, and we’re committed to returning roughly 100% of our free cash flow to shareholders in the second half of FY16. Taking all these factors into consideration, we are comfortable that we can deliver diluted non-GAAP earnings-per-share growth towards the midpoint of our previously guided range of 3.5% to 7.5% for the full fiscal year. With that, I will turn the call over to Tamar.

**Tamar Rapaport-Dagim - Amdocs Ltd - SVP, CFO, Amdocs Management Limited**

Thank you, Eli. Third fiscal quarter revenue of $930 million was at the midpoint of our guidance range of $910 million to $950 million. This included a positive impact from foreign currency fluctuations of approximately $5 million relative to the second fiscal quarter of 2016 as we predicted in our guidance. Our third fiscal quarter non-GAAP operating margin at 17.2%, an increase of 10 basis points compared to the second fiscal quarter of 2016 and at the high end of our long-term target range of 16.2% to 17.2%.

Below the operating line, non-GAAP net interest and other income was $1 million in Q3, 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 $0.90 in Q3, at the high-end of our guidance range of $0.84 to $0.90. Net interest and other income positively affected diluted non-GAAP EPS in Q3. Our non-GAAP effective tax rate of 15.8% in Q3 was within our expected annual range of 13% to 16%.

Free cash flow was $117 million in Q3. This was comprised of cash flow from operations of approximately $151 million less $34 million in net capital expenditures and other. As a reminder, we expect free cash flow to convert at a rate more on par with our expected non-GAAP net income in FY16. DSO of 72 days decreased by two days quarter over quarter. This item may fluctuate from quarter to quarter also looking forward.
Total unbilled receivables increased by $19 million as compared to the second fiscal quarter of 2016. Also, our deferred revenue, both short and long-term, decreased by $54 million sequentially in Q3. This net movement in unbilled receivables and total deferred revenue reflects timing differences between revenue at completion and the invoicing of customers during the third fiscal quarter.

Our cash balance at the end of the third fiscal quarter was approximately $1.1 billion. Our 12-months backlog, which includes anticipated revenue related to contracts, estimated revenue for managed-services contracts, letters of intent, maintenance, and estimated ongoing support activities was $3.11 billion at the end of third fiscal quarter, up $10 million sequentially from the end of the prior quarter.

During the third fiscal quarter, we repurchased $123 million of our ordinary shares. We completed our prior $750 million program and have $686 million remaining under our more recent $750 million authorization as of June 30, which will be executed at the Company's discretion going forward. That additional authority does not have a stated expiration date.

Now turning to our outlook, we expect revenue to be within a range of $920 million to $960 million for the fourth fiscal quarter of 2016. Embedded within this guidance is an immaterial sequential impact from foreign currency fluctuation as compared to Q3. For the full FY16, we still expect other revenue growth slightly below the midpoint of our previously-guided range of roughly 2% to 6% on a constant-currency basis.

This outlook incorporates a pickup in discretionary spending at AT&T and continued business momentum with former Converse customers as well as various risks and unknowns including global macro and economic challenges and the effects of consolidation activity in North America. On a reported basis, revenue growth is also tracking slightly below the midpoint of our previously guided range of 0.5% to 4.5% for the full fiscal year. Consistent with our previous guidance, this range includes an anticipated drag from foreign currency fluctuations of about 1.5%, relative to exchange rates prevailing at the end of our fourth quarter FY15.

We continue to anticipate our non-GAAP operating margin for FY16 to be at the higher end of our long-term target range of 16.2% to 17.2%. As a reminder, operating margins may fluctuate within our long-term target range from quarter to quarter. We expect the fourth fiscal quarter diluted non-GAAP EPS to be in the range of $0.85 to $0.91 with respect to Q4. We expect our non-GAAP effective tax rate to be above the high-end of our target range of 13% to 16%. For the full year of 2016, we expect non-GAAP effective tax rate to be within our target range of 13% to 16%.

Our fourth fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 150 million shares and the likelihood of negative impact on foreign currency exchange fluctuations in non-GAAP net interest and other expense. We excluded the impact of incremental future share buyback activity during the fourth fiscal quarter as the level of activity will depend on market conditions.

For the full fiscal year, we remain on track to deliver non-GAAP EPS growth towards the midpoint of our previously guided range of 3.5% to 7.5%. As Eli indicated earlier, we remain committed to returning approximately 100% of free cash flow to shareholders through share repurchases and dividend payments in the second half of FY16. With that, we can turn it back to the operator to begin our question-and-answer session.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions)

Shaul Eyal, Oppenheimer.

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**Shaul Eyal - Oppenheimer & Co. - Analyst**

Thank you, hello, good afternoon Eli, Tamar and Matt. Thanks for the color on the AT&T integrate. As always, we see the relations further expanding on the heels of last quarter's announcement. Eli, does this project, the ECOMP, is it already part of the overall AT&T bid contract or is it some sort of an add-on?
Eli Gelman - Amdocs Ltd - President & CEO

The entire D2 activity for us, the entire ECOMP activity for us is all new. So any activity that we had before with AT&T represents the base and this activity is on top of it. It includes development and joint development of certain components of the ECOMP and some services around it. As we said also, that's in terms of AT&T, we have the rights to market this entire solution regardless to whether AT&T or us or jointly with development and with whomever is developing it. We are the exclusive owner of the rights to market it globally. And I'm sure that AT&T will help us market it because we all have an interest that this would become some kind of a start or some kind of a reference grouping for other operators as well.

Shaul Eyal - Oppenheimer & Co. - Analyst

Got it. So, in a way you are leading me to my next question. Maybe from a complete different direction though. For last week, you probably saw, everybody saw Verizon announce their NFE strategy targeting the enterprise. I know that business with Verizon has been very limited in recent years, post, say the Yellow Pages, the directory. But could there be any change going forward and maybe could the nonexclusive nature of the ECOMP nonexclusive versus AT&T, could be a catalyst or a driver for approaching Verizon with such an offering and potentially additional solutions?

Eli Gelman - Amdocs Ltd - President & CEO

I would like not to relate to a specific customer that we will pursue. Naturally, we are pursuing the early adopters of the industry, AT&T being the global early adopter for NFV. And we are fortunate to have this relationship and this co-development and the co-sharing of this ECOMP, which is a good base and a good place to develop it. But other carriers around the world are early adopters in their own region.

Naturally, we are first of all, for practical purposes, but also for the reason that we need partners in evolving in this product set. So, we're looking for adopters all across the globe in Southeast Asia, in Europe and in other places. So I cannot refer to, specifically to Verizon. But anyone that would be an early adopter, a really early adopter, not by announcement but by action, will be potentially our partner to expand and extend this offering.

We are a great believer in this direction. I know that a lot of the network equipment providers do not believe in it or say they do not believe in it. I believe they have a conflicting interest and their opinion is not necessarily pure.

We are a great believer in the transformation of the environment of boxes and cables and technicians into software. We believe it will have a far-reaching impact on the industry and the way service is being rendered. To the extent, from a service-creation environment and the studio to create new services all the way through orchestration of new services, the ordering of new services all the way to service assurance.

You can understand that the knocks, that the addition of knocks will not exist in periods from now. We are talking about service operations and they are now are not network operations center. So, it is major transformation of the industry. The one, and we're a great believer in it, and we're really fortunate to be such an early player in such a game. The only thing we don't know is the pace of transformation and execution of sales in this respect.

Shaul Eyal - Oppenheimer & Co. - Analyst

Got it. This was great color. Thank you for that. I might come back later on with some additional questions. Good quarter. Thank you.

Operator

Tom Roderick, Stifel.
Hey, guys. Good afternoon. Thanks for taking my question. Eli, I wanted to throw the first question at you here. You’ve been talking a little bit more constructively about the pay-TV market over the last several quarters. It seems like you have some particular good news this quarter with what sounds like it could be a transformational cable MSO win in the US. I’m curious if you could talk a little bit more about that and the dynamics of that win, what the competitive landscape looks like and what large cable MSOs are asking you to do with some of these transformational deals? Secondarily to that, could you talk a little bit about what the role of OSS and NFV, your capabilities within those categories sort of play in your attempts to win business in the pay-TV market? Thanks.

Yes, Tom, thank you very much. It may take me some time because you asked basically several questions and all of them are good ones. Maybe to start from the end, OSS and NFV are absolutely relevant to the pay-TV and cable MSOs in North America. I will give you the color in a minute. That’s one.

In terms of what the demand, we believe that there are two major drivers and two major needs in the pay-TV North American market. One is to improve customer experience, the improved NPS. They are not known for high NPS, all of the operators and there is a major need to improve it, regardless to anything else. On top of it, there is enterprise and more sophisticated customers, not necessarily residential because customer experience is true for everyone.

But enterprise is a growth segment for the MSOs. They realize that their backhaul, their backhaul network is very relevant for enterprise services. As such, they are offering it to small and medium businesses to large and very large enterprises. These are two major drivers or needs that need to be met.

Specifically, the deal that we’re announcing today is regarding enterprise customer segment with one of the largest MSOs in North America. We are highly excited about this of course. It probably will be a large project by itself, but also may have some implication on others that are looking at what others are doing so they may try to do similar things or identical things.

In terms of the OSS and NFV going back to this point, look, when you have such a strong backhaul and you have such a strong network, the fact that you don’t have the same last wireless operators, that is to say they wouldn’t have a radio access network whereas the MSOs would have a video delivery network, it means that most of the network is identical. And as such, they would have the same challenges of OSS in terms of inventory, in terms of operation, in terms of follow-up on service orders as well as NFV for enterprise. I think that there will be more and more similarities between the two markets.

The big message for us, at least for the industry, is that the MSOs did not really invest in IT in any significant way for many, many year, probably over more than 20 years. So when you start seeing major, serious, high-end MSOs, transfer so soon, regardless for what reason, and I tried to explain the reasons, it is exciting. Hopefully the others will follow.

And the fact that we been chosen in terms of the competitive landscape, you can imagine that after, let’s say, 20-plus years of non-transformation projects, when there is free transformation, I would say everybody and his wife should show up and they showed up. The fact that we won is against practically everybody. In quite some time, you know, you go to the short list and then awards. The process is long. This is probably a few quarters, at least a few quarters of the sales process. But you can imagine that everybody is trying to get it.

And, Eli, one follow-up, and maybe not necessarily related to this win that you’re talking today, but, in the past, certainly AT&T’s U-verse division has been a customer and DirecTV has been a customer; and there has been an opportunity for you to do more with AT&T. With respect to having
different angles of support around DirecTV, and what that could mean inside of AT&T, can you talk about what the opportunities might look like going forward as they're now a combined entity?

Eli Gelman - Amdocs Ltd - President & CEO

Yes, I can try. No doubt that we were the back-end pull A-Z around U-verse which used to be the leading multiplay, especially pay-TV offering of AT&T. DirecTV originally or historically has relatively small business with Amdocs; it's a lot of legacy, some homegrown and some serval. Under the leadership of AT&T, and with the announcement that AT&T are making in terms of their strategy, how to use this asset in conjunction with a wireless and broadband and other offerings that AT&T has, I think, or I could imagine that AT&T would need to invest in IT.

Whether it would be us or others, we are trying to work quite hard to convince AT&T that we're the best partner there. In terms of what should be done, most likely modernize the entire DirectTV by consistence from customer management, customer experience, ordering, charging, multi-play, probably everything. And so I am not sure that they will do it necessary in one time, but gradually, I think there is a need to ramp-up this asset, because this asset is the vehicle for AT&T to compete with other MSOs that conquer, Shorter, Time Warner, anyone else. I hope to see that this also would be part of the progression within the pay-TV industry.

Tom Roderick - Stifel Nicolaus - Analyst

Great. Quick one for you, Tamar. You mentioned the fourth-quarter guidance here contemplates a tax rate slightly above 16%. It might be looking a little too far to think about what that looks like in the quarters beyond that, but could you just give us some parameters around how we ought to think about the puts and takes in your tax rate as we look out into 2017 for our own models and longer-term how that might be trending?

Tamar Rapaport-Dagim - Amdocs Ltd - SVP, CFO, Amdocs Management Limited

In terms of specifically for next year, we will have to wait until we actually build our bottom-up plans, because it is also related to the geographical mix we expect to see, et cetera. But roughly speaking, we've been tracking more recently in the 13% to 16% range, so you can use that as an indicator for now. What we are seeing around the world is continuous pressure of all governments to collect more taxes. I don't think I'm surprising you there. It is requiring a continued effort on our end to make sure we are planning ahead, stay close to different tax reforms and regulations that are contemplated in different places. And of course, continue to build that into the way we operate and build the deals moving forward. Just another dimension we are taking into consideration like many others.

Sterling Auty, JPMorgan.

Sterling Auty - JPMorgan - Analyst

This is Jackson Ater on for Sterling. Question from our side, it sounds like you're much more positive on North America in the last couple of quarters. Where do you see it kind of bottoming out and returning to growth? What's the timeline on that?
Eli Gelman - Amdocs Ltd - President & CEO

Will Jack, it’s not the $1 million question; it’s a few billion dollar question. Obviously we don’t know exactly, but the direction that we are identifying is the correct one. North America dynamics regardless to Amdocs. It has nothing to with Amdocs. It was not so positive in the last 12 months because of many, many reasons, including the regulators, including fiscal petitions in wireless and other things.

But we definitely see some progress with North American carriers and MSOs. The MSOs are the new part. The others, wireless and broadband are the old part. We believe it will grow. It’s hard to predict exactly when and the pace, but I think it will be fairly safe to say it will be better in the following next 12 months than in comparison to the previous one.

Sterling Auty - JPMorgan - Analyst

Okay. And then my follow-up is also regionally based. Again, you mentioned in your prepared remarks that you are seeing some stronger markets in Southeast Asia rather than Latin America and I’m just curious why that is? What you’re seeing in Southeast Asia versus Latin America?

Eli Gelman - Amdocs Ltd - President & CEO

So Jack, this is actually a relatively easier question to answer. The reason why we see it is because of, first of all, the macroeconomics. When you look at the two strongest economies in Central and Latin America, this is Brazil and Mexico, for different reasons, they have some challenging environments. Brazil, I don’t know how you measure it in the recession or whatever, but Brazil is not in a very good economical place. And that affects obviously, everyone’s decision and, practically almost, the Olympics is behind us. The preparation for the Olympics are already built into their economy. So that is in Brazil.

In Mexico, it is slightly different dynamics, the entrance of AT&T into Mexico changed the market quite significantly. And now there is a strong competitor in Mexico which is AT&T. AT&T is going with a very interesting strategy of going after the high-end of the market. So they put a 4G network, they invested in IT system which is Amdocs. And they go after enterprise and a lot of other things of this nature. And that has created a real competition among the carriers there, which is predominantly Cross America mobile and Telsa.

So, it’s different dynamics. And the rest of the markets actually are derivatives of this market. So we believe that there will be growth, but not as high as in APAC or in Southeast Asia in APAC.

In Southeast Asia and APAC, on the other hand, talking about economies that are growing including the Philippines, Malaysia, Indonesia, Korea, Australia, in other words, so both emerging economies and more developed economies are growing and they invest more, as such, in their future; that is to say, with people like us and, more specifically, with us. We believe that there will be a difference between the growth rate, might even a rather significant difference between the growth rate of APAC in Southeast Asia versus Central and Latin America. By the way, it was also true this year, but not so significantly, both of them grew. And in the future, I think they will grow but maybe at a different rate.

Altogether, we still believe that the rest of the world will generate growth and maybe and most likely in the higher growth of the Company. But the growth that we had in the last, let’s say, 12 months of 25% plus is not sustainable. We said it more than once; it’s not something you’re usually seeing.

Sterling Auty - JPMorgan - Analyst

Okay. Thank you very much. Thank you.

Operator

Jason Kupferberg, Jefferies.
Amit Singh - Jefferies LLC - Analyst

Hi guys. This is Amit Singh for Jason. I just wanted to quickly talk about your M&A comments earlier in the prepared remarks. So now with Comverse pretty well integrated into the business and you having more than $1 billion of cash and ability to lever up as well. Are we at the stage where you are ready to do some more acquisitions; and, if yes, if you could talk about the capabilities of the sizes that you would be looking at?

Eli Gelman - Amdocs Ltd - President & CEO

Emmett, it's a very good question. The short answer is yes. We said all along that we believe in M&A as a vehicle to generate growth and to augment our offering. We really think that we have smart people and good software and good services, but really, we don’t have a monopoly on wisdom. So we would buy, when we think it makes sense.

You know that we are quite prudent in the way that we are targeting, first of all. It has to meet our strategy and is the number one by far and the most important thing. And then, we are trying to look for the best company possible to get. And that could be in any variety, as demonstrated in the last few years, in any variety of areas, from consolidation all the way to niched economies to accelerate the R&D and anything around services in the middle.

And in different geographies, where we feel very comfortable to buy assets in any geography, and any topic, as long as they are good assets and it makes good sense for shareholder’s return. So the answer is yes; we would like to do more M&As. Size and type, needless to say, I cannot really get into that. But our history shows that we do, I'd like to call it the right M&As. So if we need their technology, augmentation of geography presence or whatever, depends on the asset. If it will be something bigger in costs, it will have to come with bigger revenue and EBIT for us. I hope that the investor spectrum will always look at our M&As as intelligent M&As.

Amit Singh - Jefferies LLC - Analyst

Great. Thank you. As you look at your employee mix and you’ve talk about Southeast Asia being one of the focus regions, inside emerging markets and, as you’re thinking about hiring more people, are you thinking about beefing up your presence in any particular region or country? And if you could tie that to your margins, could that help your margins expand from your current 16.2% to 17.2% range going forward?

Eli Gelman - Amdocs Ltd - President & CEO

First of all, I want to tell you that our employee mix and locations are not primarily driven from cost structures and efficiency of this kind. It might be disappointing for you, but we are first of all going after the talent. We are software company; we're dealing with a very, very sophisticated piece of software and very significant piece of services. We first of all go after talent.

After saying that, if we can find the same talent in a very expensive area of Europe, for the sake of discussion or West Coast, there is a lower cost in India or might be or in Israel, we'll go usually with the lower cost. But this is secondary. It's an important secondary, but it's a secondary consideration.

The third consideration is where we need the support teams. Because we do software that is affecting intimately the operation for our customers. It’s not like something that you are sending and installing once and you’re going to go away. So we need to reside either on-site or close by to our customers. So if we have growing business in Southeast Asia, we are developing some capabilities and some talent and skills in Manila and in Singapore.

And if we need to have more business in Central and Latin America, we just opened this year a center in Guadalajara in Mexico to support the Spanish-speaking customers. So the considerations for us are, first of all, talent, cost and locations of our customers. And, after saying all that, we're optimizing it all the time and we are trying to do the best, trying to find the best balancing act between talent and capabilities and cost.
All right. Great, thank you very much.

Thank you.

Will Power, Robert W. Baird.

Hello, this is actually Charlie Ehrlich filling in for Will. Thanks for taking my question. Could you talk a little bit about your relationship with Vodafone and where you see that going forward?

Yes. Look, Vodafone is a very active company. Let's put it this way to start with. They're spread in many, many geographies and many type of markets from emerging markets like India through emerging European countries like Turkey and others all the way to North Africa and obviously the heart of Western Europe which is UK, Germany, Holland and other places. And a highly demanding customer, a very sophisticated customer. It may sound like an issue; it's actually an advantage because we have the ability to address highly complex, sophisticated customers and I think that's the number-one reason why we have growing business with Vodafone. They find, I think, more and more our product to meet their strategy and their needs.

And we have a relationship in many dimensions, not only in many geographies, but in many dimensions. On one hand, we have minute services, ongoing, ADM application, the development and maintenance, contracts with Vodafone in several locations. The other extreme is that we are doing all kind of proof of concepts with Vodafone on completely new ideas. And in between, of course, is the bread-and-butter CS-10 versions and services and the whole nine yards that we can offer.

So we have a broad relationship with Vodafone on many geographies. The type of services and type of products are the other dimension which is we enjoy a wide range of application services. And we have worked very closely with Vodafone on a strategic level, that is to say, management to management meetings, strategy alignment, and early-adopter type projects.

After saying all that, like with AT&T, like with Singtel, these are all very demanding customers. And the only reason I believe that we are having growing business with them, is they are relevant and we are competitive and we need to win each one of the businesses, each piece of the business, in each country again, again, again. We have no shortcuts or no discounts in the process. That's kind of the big view for Vodafone.

Yes. That's perfect. Thank you.

Thank you, Charlie.
Tal Liani, Bank of America.

Tal Liani - BofA Merrill Lynch - Analyst

Hello, good afternoon. This is Mike filling in for Tal. Congrats on being selected by AT&T as its ECOMP-integration partner. Would you be able to give us any color with regard to the size of the project from a dollar-value perspective? And is this project expected to replace any other streams of revenue you were getting from AT&T or is this totally incremental?

Eli Gelman - Amdocs Ltd - President & CEO

Mike, I will start from the end. We believe it’s incremental, not because of the co-measure aspect of it. We are providing completely different value; this is a different buying center. This decision has been made in the network and engineers in the network corporation; and its completely different type of software and engineering. We believe it’s incremental. So that’s the second question you had.

In terms of the size, we usually don’t comment about size of projects. But this is many millions of dollars; it’s not a small project. We are talking about a major undertaking on both ends, on AT&T and on us. And we believe will be a multiyear too.

The first phase is to design all of it then execute it. Software will be part of that. The second phase, then execution and implementation. We are talking about the placing a very, very delicate component of the network. Obviously, networks need to work with 5.9s and higher ability and highly secure it. So we’ll think about highly sophisticated, high-volume, replacing very important components and being the big one of the future for AT&T’s network, nationwide AT&T network.

And that’s before we go into a next generation operation and other things that are not necessarily in the program today. There is obviously a large component of services that comes with this type project. So it is a major undertaking.

Tal Liani - BofA Merrill Lynch - Analyst

Excellent. Thank you for the color. And just one follow-up. As you work with AT&T on its domain 2.0 initiatives, are you expecting a ramp in OpEx investments that is needed to build this project? Or just something that fits within the current operating structure?

Eli Gelman - Amdocs Ltd - President & CEO

OpEx is not necessarily the number one concern that we have. Some of it would be in R&D because we are developing new products. Some of it will be part of our services and we’ll monetize it as part of services. But it’s like a normal Metro project for us. I don’t expect hikes either in OpEx or cutbacks other than what you would see normally within our projects.

Tal Liani - BofA Merrill Lynch - Analyst

Excellent. Thank you.
Operator
Thank you, Mike. I’m showing no further questions in queue at this time. I would now like to turn the call back to Matt Smith for closing remarks.

Matt Smith - Amdocs Ltd - Head of IR
Thank you Liz and thank you very much for joining our call this evening 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 in the Investor Relations group. Have a great evening and, with that, we will conclude the call.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may now disconnect. Everyone have a great day.