REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2023 Amdocs Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 07, 2023 / 10:00PM GMT

CORPORATE PARTICIPANTS

Joshua Sheffer *Amdocs Limited - President, CEO & Director*
Matthew E. Smith *Amdocs Limited - Secretary & Head of IR*
Tamar Rapaport-Dagim *Amdocs Limited - CFO & COO*

CONFERENCE CALL PARTICIPANTS

Ashwin Vassant Shirvaikar *Citigroup Inc., Research Division - MD & Lead Analyst*
Tal Liani *BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst*

PRESENTATION

Operator

Thank you for standing by, and welcome to Amdocs' Fourth Quarter Fiscal '23 Conference Call. (Operator Instructions) As a reminder, today's call is being recorded. I would now like to turn the conference to your host, Mr. Matt Smith, Head of Investor Relations. Please go ahead.

Matthew E. Smith ***Amdocs Limited - Secretary & Head of IR***

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 the comments today may be forward-looking statements and are subject to risks and uncertainties, including 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.

Participating on the call with me today are Shuky Sheffer, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Chief Financial and Operating Officer. To support today's earnings call, we are providing a presentation, which can be found on the Investor Relations section of our website. And as always, a copy of today's prepared remarks will also be posted immediately following the conclusion of this call.

On today's agenda, Shuky will recap our business and financial achievements for the full year fiscal 2023 and will update you on the continued progress we've made executing against our strategic growth framework, including exciting developments in cloud and generative AI. Shuky will finish by commenting on our financial outlook for the full fiscal year '24, after which Tamar will provide additional details on our fourth quarter financial performance, our forward guidance and our continued commitment to ESG. And with that, I'll turn it over to Shuky. Go ahead.

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

Thanks, Matt, and good afternoon to everyone joining us on the call today. To begin, I want to sincerely thank our talented and diverse group of global employees for a successful 2023 in which we continue to bring value to our customers while developing the innovative technology that forms as the backbone of today's seamless digital world. More so, I would like to express my deep gratitude to our employees in Israel, which, in the days following the horrific attack on October 7, have shown tremendous resilience, dedication and commitment to Amdocs and each other. My heart felt sympathies go to all of those who have lost loved ones or directly suffering because of these terrible events.

As a global company with support and development centers around the world, I'm proud of the way the Amdocs family has come together to support one each other in recent weeks, and we will continue to give absolute priority to the safety and well-being of our people, doing everything necessary to ensure they have the support they need to navigate this difficult time. With that said, I'm pleased to report solid fourth quarter results consistent with our guidance, wrapping up another strong year of healthy, profitable revenue growth and robust free cash flow generation in fiscal '23.

Summarizing the fiscal year highlights on Slide 7. Record revenue of approximately $4.89 billion grew 7.7% in constant currency as we supported our customers' multiyear journey to the cloud, digital modernization, network automation and the deployment of monetization of 5G and fiber networks. We are also excited to report that revenue from cloud activities grew at a double-digit rate and exceeded 20% of Amdocs' total revenue for the first time in fiscal 2023. Closing 12-month backlog was record $4.15 billion, up approximately 4.5% from a year ago. And we delivered double-digit, non-GAAP diluted EPS growth of 11.5%, well above the 10% midpoint of our original outlook, reflecting top line growth, margin expansion and our consistent cash return to shareholders.

Turning to Slide 8. Fiscal 2023 was another year of strong market recognition and many key wins as we continued to play a key role in our customers' modernization journeys. We significantly expanded activities within T-Mobile's cloud-based digital transformation and continued to progress AT&T's multiyear modernization. Additionally, we won major awards at Bell Canada, Three UK, Globe and PLDT in the Philippines and many other customers, including a partnership at Disney which Amdocs Vubiquity providing the direct-to-consumer platform support.

Our global breadth of activities and customer wins translated to a strong performance across regions in fiscal 2023. North America had a record year, as did Europe, which delivered strong double-digit growth as we progressed several modernization projects on behalf of leading operators like Vodafone, Wind Tre in Italy and PPF Group in multiple affiliates. Rest of the World grew sequentially in Q4, delivering its strongest quarter in 4 years as we supported activities at Globe and PLDT in the Philippines and M1 in Singapore. For fiscal '23, overall Rest of the World was lower for the year.

Focused execution was another hallmark of fiscal 2023 as measured by a record number of project milestone achievements. Amdocs is continuing to support 5G fixed wireless access expansion in North America, including key launches at T-Mobile and AT&T as well as the strategic mobile offering of Comcast, Charter and Altice. Overseas, we executed successful deliveries at Three UK, Vodafone, [XL comm] in Southeast Asia and many others. Managed services had another record year, which includes recent multiyear expansion at Three UK and extension in Vodafone Netherlands as well as AT&T Cricket, DISH Network, Globe Telecom and other customers as reported earlier in the year. We also strengthened our managed services offering, launching our next-generation Amdocs Cloud Management Platform, which integrates generative AI capabilities from our amAIz framework to enhance operating efficiency and agility.

Now moving to Slide 9. I would like to update you with respect to our growth strategy, the aim of which is to bring the market-leading innovation our customer needs to accelerate their journey to the cloud, create seamless digital experiences for consumer and B2B, launch and monetize new 5G services and deliver dynamic, connected experiences with real-time automated networks. Let me begin, however, with generative AI, which, following the strategy we outlined last quarter, I would like to provide an update as we accelerate execution across the various domains.

We think of our generative AI strategy in 3 pillars. First, the infusion of generative AI into our CES product suite, including co-pilot capabilities and gen AI-native functions in flagship products like our enterprise catalog, CPQ and monetization platforms. As a reminder, all of these capabilities are powered by our recently launched amAIz gen AI framework, which provides our propriety telco taxonomy that improves accuracy and ensures context-aware responses; a library of industry-tailored use case kits that package common functionality; and importantly, a robust trusted AI layer that provides data security, observability and control.

Second, we are providing a foundation that leverages generative AI to address key telecom industry challenges by bringing together our deep telecommunications expertise and unique telco taxonomy to help our customers accelerate their adoption of generative AI.

Third, we are building strategic partnerships in the space. We previously announced our engagement with Microsoft where we are collaborating to integrate Microsoft's capabilities into our Customer Engagement Platform, while leveraging Microsoft's and OpenAI capabilities across our portfolio. Today, we also announced a partnership with NVIDIA, a world leader in AI infrastructure. Together, we will focus on utilizing the NVIDIA generative AI ecosystem to accelerate adoption and innovate to realize some of the industry's largest opportunities from network operations to customer care. In general, we are working alongside several of our flagship customers to prioritize high-value deployments of generative AI, trying to focus on where we expect to achieve meaningful financial and operational benefits for customers as a result.

It's important to highlight that data plays an important role in the utility of generative AI. To that end, we continue to execute on our data strategy, which focus on cleansing, normalization and cloudification of the vast data generated and stored by our industry while at the same time, ensuring it is readily accessible for generative AI tools. Finally, we continue to grow our use of generative AI capabilities to drive productivity and efficiency across Amdocs' organization, particularly in software development and operations, and we expect these to generate ongoing benefits.

Moving to the cloud on Slide 10. Customer momentum accelerated in fiscal 2023, reflecting ongoing cloud programs with AT&T and T-Mobile and new engagements with Three UK, Vodafone Ireland, Wind Tre, PLDT, Bell Canada, TELUS and Claro Brazil. Our win momentum continued in Q4. AT&T Mexico extended an agreement with Amdocs to provide ongoing operation and support services for Amdocs applications being moved to the public cloud. Amdocs broadened its role with Rogers in alignment with their real-time rating and metering program. This extended responsibility involves readying Rogers' cloud infrastructure to facilitate seamless processes such as CI/CD pipeline, network integration and quality engineering testing and product deployment certification. Additionally, Australia's TPG Telecom awarded Amdocs a multiyear deal to modernize and consolidate TPG's monetization platform on AWS, replacing the current incumbents.

Our growing list of cloud customer activities reflect Amdocs' unique telco industry expertise, robust product offering, leading web-scale provider partnerships and an ability to remove complexity by delivering end-to-end, fully accountable cloud migration paths. Moreover, we continue to invest in our offering as we aim to further accelerate the industry's cloud journey. For instance, service providers now have the option to migrate their Amdocs classic applications to Microsoft Azure or Oracle Cloud Infrastructure, enabling them to leverage existing investments while taking advantage of our latest CES portfolio. Additionally, I am pleased to announce the recent acquisition of Astadia, which accelerates our customer cloud offering to include highly sophisticated mainstream-to-cloud migration and modernization, end-to-end from consulting to managed services.

Moving to Slide 11. Amdocs remains critical to enabling our customers' digital modernization journeys, including the B2B segment where service providers have potential to improve their market position with next-generation IT, including the Amdocs Customer Engagement Platform we launched in partnership with Microsoft. As a reminder, Amdocs is already progressing 2 of the world's largest B2B transformation project in Comcast and T-Mobile. Another great example is Australia's Optus, which recently elected to modernize its enterprise operation with Amdocs' cloud-native B2B portfolio, enabling it to simplify and accelerate the sales journey for Optus agents with end-to-end automated order fulfillment.

Elsewhere, Amdocs is working with India's Bharti Airtel to accelerate digital transformation, implementing an innovative monetization platform and automating billing processes to enhance end-to-end user experience. In Dubai, we worked with Etisalat by e& to revolutionize their in-store retail experience with one of the world's first AI-enabled telco autonomous stores, providing a personalized next-generation experience for shoppers. And Amdocs collaborated with Public Mobile, Canada's first 5G subscription phone service, on an eSIM application that enables customers to activate and manage their services completely digitally. Bringing together communications and media, Amdocs' MarketONE platform is enabling A1 Group to include Netflix with the A1 portfolio service offering across 6 markets. Juice, part of Vubiquity, earned its fourth Netflix Preferred Fulfillment Partner of the Year award for the Americas region, making them the highest-performing partner since the program launched.

Turning to 5G monetization on Slide 11 -- Slide 12. We continue to help service providers launch and monetize innovative offering for the 5G stand-alone area. Amdocs currently has more than 20 cloud-based charging projects in production across a range of public, private and hybrid environments, including at leading CSPs in America. This quarter, we won a multiyear managed services extension with a leading telco in sub-Saharan Africa, which includes a BSS modernization to monetize 5G and data products while improving customer satisfaction. ATN International from the Caribbean selected Amdocs to transform their monetization operations, demonstrating a pivotal step towards achieving their strategic goal of becoming a truly customer-centric organization.

Turning to network automation on Slide 13. Fiscal '23 was a year of progress during which we supported the successful expansion of DISH Wireless' 5G Open RAN network, meeting and exceeding FCC commitments to reach 70% of the U.S. population. Other highlights include key projects with Colt Technology in the U.K., Bell Canada, Verizon and the strategic acquisition of TEOCO's service assurance business to strengthen our unique end-to-end service orchestration offering.

More recently, Amdocs acquired ProCom Consulting, a U.S.-based digital transformation services and business consulting company primarily serving operators in North America. ProCom is a growth move for Amdocs, providing us with an expanded offering to better support telcos and newly emerging fiber operators that are focused on accelerating the rollout of fiber networks in the U.S. and the rest of the world. An example is Summit Broadband, a Florida-based fiber optics service provider, which has selected Amdocs for a multiyear deal to uplift their BSS and OSS ecosystem.

Today, we also announced that Amdocs has joined AWS Integrated Private Wireless as a strategic integrator, enabling service providers to unlock new innovations in mobile private networks for enterprise customers by bringing together Amdocs' mobile private network solution with AWS' reliable and secure infrastructure services.

Moving to Slide 14. Fiscal '23 can be summarized as a highly successful year in which we maintained a market-high win rate, accelerated customer and revenue momentum in cloud, established technology and industry leadership in generative AI and reinforced our customer reputation for superb project execution and seamless mission-critical operation support.

Taking a moment to review the current environment on Slide 15, Amdocs continues to serve a large addressable market, the size of which has expanded significantly in recent years as we focused our strategy on delivering innovation for service providers to advance their journey to the cloud-based 5G and fiber networks, generative AI and improved consumer and B2B experience. Amdocs has also a relatively resilient business model with highly recurring revenue streams resulting from our support of mission-critical systems under long-term engagements, including managed services. To remind you, however, Amdocs is not immune to an increased level of macro uncertainty and industry pressure, signs of which we shared with you last quarter as some operators began to prioritize strategic modernization programs while reducing discretionary spending, including investments to enhance legacy systems.

Turning to our outlook on Slide 16. We expect revenue growth within the range of 1% to 5% for the full fiscal 2024. On one hand, our full year outlook reflects the previously mentioned impact of macro uncertainty and industry pressure as well as revenue headwinds attributable to reduced legacy system investment of roughly 3%. With that said, we expect another year of double-digit growth in the cloud. Cloud has been one of Amdocs' strategic growth pillars in the last few years and exceeded 20% of revenue in fiscal 2023 as we levered our position as the industry technology partner of choice for multiyear strategic modernization journeys. As we shared before, we believe the industry is still in the early innings of the cloud journey, the long-term shift to which will be increasingly fueled by the arrival of generative AI.

As we've shown in fiscal 2023, our continued efforts to improve operational excellence through automation and other sophisticated tools are yielding results, added to which is the more recent potential of generative AI to further improve efficiency across our business. As a result, we expect to accelerate the pace of profitability improvement in fiscal 2024 as reflected by our new outlook for non-GAAP operating margin in the range of 18.1% to 18.7%, the midpoint of which is 60 basis points better than the 2023 results. Additionally, we expect to maintain earning to cash conversion of roughly 100% in fiscal 2024, and we expect to return the majority of free cash flow to shareholders in the year ahead.

Overall, we're in a great position to deliver double-digit non-GAAP diluted earnings per share growth for the fourth consecutive year in fiscal 2024. In addition, I'm pleased to say that the Board has today approved a 10% increase in our quarterly cash dividend payment, equating to an annualized yield of roughly 2.3%. With that, let me turn the call over to Tamar for her remarks.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

Thank you, Shuky, and hello, everyone. Thank you for joining us. I'm pleased with our solid financial results for the fourth fiscal quarter, the highlights of which you can see on Slide 18. Record Q4 revenue of approximately $1.243 billion was up 6.3% year-over-year in constant currency. On a reported basis, revenue increased 6.5% and was above the midpoint of guidance, including an immaterial impact from foreign currency movements compared to our guidance assumptions. Revenue from the acquisition of ProCom Consulting in late August was immaterial this quarter. On a geographical basis, North America delivered a record quarter. Europe delivered strong growth of nearly 20% from a year ago but declined sequentially because of normal fluctuations in project activity. Rest of the World grew on a sequential and year-over-year basis to post its best quarter in more than 4 years, primarily due to improved activity in Southeast Asia.

Moving down the income statement. Our non-GAAP operating margin of 17.8% was up 20 basis points from a year ago and unchanged as compared with the prior quarter. On the bottom line, non-GAAP diluted EPS of $1.42 was slightly above the midpoint of guidance and included non-GAAP effective tax rate of 21.8%, which, as anticipated, was above our annual target range. Note that non-GAAP diluted EPS excludes restructuring charges of $46 million incurred in the quarter. Diluted GAAP EPS was $0.86 for the fourth fiscal quarter, which was above the guidance range of $0.67 to $0.81, primarily due to lower-than-anticipated restructuring charges.

Summarizing fiscal 2023 on Slide 19. Revenue grew 7.7% in constant currency, in line with our most recent guidance but slightly below the original 8% midpoint we anticipated at the start of fiscal year. As a new point of disclosure, revenue from cloud activities grew at double-digit rate and exceeded 20% of Amdocs' total revenue for the first time in fiscal 2023. Revenue from cloud activities includes modernization projects using our CES suite or our cloud-enabled classic versions, cloud consulting, cloud migration services and cloud operations and workloads. To clarify, in some cases, cloud revenue may also overlap with revenue for managed services when above activities are provided to our customers under a multiyear managed services arrangement.

On a regional basis, North America and Europe had record years in fiscal 2023. The Rest of the World saw a slight decline of roughly 2% despite growth in Southeast Asia. Further highlighting the long-term diversification of our business, while we continued to expand our business in North America and while it is still our biggest region in fiscal 2023, 6 of our top 10 customers were located outside North America, 2 of which were new logos added in the last 10 years. For comparison, a decade ago, only 2 of our top 10 customers were outside North America. Additionally, the number of countries in which we generate annual revenue of more than $40 million has almost doubled over the 10 years. Some of these new countries added were Italy, Germany, Mexico, India and Malaysia.

On the bottom line, we delivered double-digit non-GAAP diluted earnings per share growth of 11.5% in fiscal year 2023, exceeding 10% midpoint of our initial outlook for the year and driven by strong top line performance, non-GAAP operating margin improvement and the benefit of our share repurchase activity.

Moving to Slide 20. 12-month backlog was a record high at $4.15 billion, up 4.5%. On a sequential basis, our 12-month backlog was up by $10 million in Q4. During Q4, we continue to sign deals with new logos and existing customers. Additionally, existing deals in backlog are progressing, and our managed services renewals remain at close to 100%. As a reminder, our 12-month backlog has roughly averaged around 80% of forward-looking 12-month revenue over the years and has therefore traditionally served as a good leading indicator of our business.

Turning to Slide 21. Managed services closed out another record year with strong fourth quarter revenue of $718 million, equivalent to about 58% of total revenue. Our managed services engagement support the resiliency of our business with recurring revenue streams, near 100% renewal rates and expanded activities under multiyear engagements. A great example is Three UK, which I am pleased to say has appointed Amdocs as a single supplier to simplify its IT operations under a 5-year deal, which extends our relationship following the business' recent IT transformation. As another example, we recently signed a multiyear managed services extension with VodafoneZiggo in the Netherlands, under which we will be responsible for VodafoneZiggo's business systems operations for fixed line and mobile customers.

Now turning to the balance sheet and cash flow highlights on Slide 22. DSO of 69 days decreased by 5 days year-over-year in Q4 and decreased by 10 days sequentially. Unbilled receivables is higher than deferred revenue by $86 million, aggregating the short-term and long-term balances. As a reminder, the net difference between deferred revenue and unbilled receivables fluctuates from quarter-to-quarter in line with normal business activities. Reflecting strong execution, we reported free cash flow of $698 million for the full fiscal year 2023, comprised of cash flow from operations of $823 million less $124 million in net capital expenditures and other. Full year reported free cash flow included nonrecurring restructuring payments of $20 million, which was not assumed in our annual free cash flow guidance of $700 million for fiscal 2023.

Overall, we ended the fiscal year with a strong balance sheet and a healthy cash balance of approximately $743 million, including aggregate borrowings of roughly $650 million. Moreover, we have ample liquidity to support our ongoing business needs while retaining the capacity to fund our future growth strategy, including the acquisition of Astadia, which closed in November for a net cash consideration of $75 million with additional consideration to be paid later based on achievement of certain performance metrics.

Turning to capital allocation on Slide 23. We repurchased $155 million of our shares in the fourth quarter and paid cash dividends of $52 million. Overall, we returned a total of $689 million to shareholders through share repurchases and dividends in fiscal 2023, equating to almost 100% of reported free cash flow. Looking ahead, we expect free cash flow of approximately $750 million in fiscal 2024, which does not include remaining restructuring payments of approximately $26 million. Our free cash flow outlook equates to a conversion rate of approximately 100% relative to non-GAAP net income and a healthy free cash flow yield of roughly 7.6% relative to Amdocs' current market capitalization.

Regarding our capital allocations in fiscal year 2024, we expect to return the majority of our free cash flow to shareholders. This includes dividends for which we are pleased to announce a proposed increase of 10% in our quarterly cash payments to a rate of $0.479 per share, subject to shareholder approval at the annual meeting in February and represent our 11th consecutive annual dividend increase since our first payment in 2012. Overall, I believe fiscal 2023 was another landmark year of Amdocs, which includes record-high revenue, consistent profitability improvement, robust free cash flow generation and strong double-digit growth in non-GAAP diluted earnings per share.

Now turning to outlook on Slide 24. To begin, we are continuing to closely monitor the prevailing level of macroeconomic, geopolitical, business and operational uncertainty, which remains elevated in the current business environment. Thus, the first quarter and full year fiscal 2024 financial 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.

Beginning with the top line, we expect revenue growth within the range of 1.2% to 5.2% year-over-year in constant currency in fiscal 2024, the 3.2% midpoint of which is roughly half organic. We expect a stronger second half to the fiscal year based on our expected plan of execution for deals already in the 12-month backlog, plus new opportunities which we anticipate will convert to signed deals and contribute to revenue this fiscal year. We expect another year of double-digit cloud revenue growth in fiscal 2024. Additionally, our outlook assumes no material change in the current macroeconomic backdrop and the revenue headwind of roughly 3% attributable to reduced customer investments in legacy system enhancements, among other factors.

Our annual outlook includes first fiscal quarter revenue within a range of $1.225 billion to $1.265 billion and assumes a negative $5 million sequential impact from foreign currency fluctuations as compared to Q4. On a reported basis, we expect full year revenue growth in the range of 1% to 5% year-over-year, which anticipates a small but unfavorable impact from foreign currency of approximately 20 basis points year-over-year.

Moving down the income statement. We anticipate quarterly non-GAAP operating margin within a new and improved annual target range of 18.1% to 18.7%, as shown on Slide 25. Our new target range for fiscal 2024 continues the path of consistent margin expansion we have delivered over the years. Moreover, the 18.4% midpoint of our new range represent an accelerated improvement of 60 basis points as compared with our full year non-GAAP margin of 17.8% in fiscal 2023. The improvement in margin will happen gradually through the year. This reflects the cumulative benefit of our continual initiatives to improve operational excellence through automation, other sophisticated tools and disciplined resource management, added to which, we expect the implementation of gen AI to drive additional cost and efficiency improvements across our business.

Below the operating line, we anticipate that foreign currency fluctuations and cost of hedging will impact our non-GAAP net interest and other expense line in the range of several million dollars on a quarterly basis. We expect that our non-GAAP effective tax rate will remain within an unchanged annual target range of 13% to 17% for the full fiscal year 2024.

Bringing everything together on Slide 26, we expect non-GAAP diluted earnings per share growth in the range of 8% to 12% for the full year fiscal 2024, the midpoint of which is expected to mark the fourth straight year of near double-digit growth. Similarly, we expect to deliver double-digit total shareholders return for the fourth year running in fiscal 2024, including our outlook for non-GAAP earnings per share growth, plus a dividend yield of about 2.3% based on the newly proposed quarterly cash payment to be approved by shareholders at February's annual meeting.

Moving to Slide 27. This August, we published our latest CSR and ESG reports for the period 2022 to June 2023, which we showcased with our second annual ESG webinar for investors in September. During Q4, we continued our focus on the environment, digital inclusion and diversity, which represent key pillars of our ESG strategy. Among the highlights, we announced our path to carbon neutrality for scope 1 and 2 emissions by 2024; launched a program to support over 1,000 women through digital and financial inclusion in Mexico; and recognized Hispanic Heritage Month, celebrating Latino communities in North America.

I'd also like to make a [few] comments about actions we have taken following the terrible events in Israel on October 7, since which our primary concern has been the safety and security of our employees and their families and on providing support to them during this difficult time. We are in continuous contact with all employees in Israel, sharing specific information about the support and services we can provide for them and their families. Amdocs is also supporting the wider community. Over the last several weeks, we have donated to mental and physical health care organizations and communities in Israel's south. Many Amdocs employees have also volunteered their time to support evacuated families, local farmers and other initiatives. I've also been incredibly humbled and proud to hear from our employees worldwide, the vast majority of which are located outside of Israel.

With our support and development centers around the world, we have come together as one family to serve our customers seamlessly, providing 24/7 service and support to all our customers and business operations worldwide without interruption. With that, back to you, Shuky.

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

Thanks, Tamar. As you can probably tell from our remarks today, we are pleased with our solid financial and operational performance in fiscal 2023, and we are looking forward to delivering the fourth consecutive year of double-digit non-GAAP earnings per share growth in fiscal '24. With that, we are ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ashwin Shirvaikar of Citigroup.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

I guess the first question I have is with regards to the double-digit EPS growth plus the dividend, of course, on top of that and the flexibility that you seem to have with regards to scaling up margin improvement to make up for the lower rev growth. How much visibility do you have into that scaling up of margin improvement in terms of each of the factors that you have named?

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

We have a very good visibility. As a reminder, we are talking, at least for the last 3 years, about all the automation improvements we are doing and best-in-class processes and many, many sophisticated tools that we are implementing across the organization, both on operations and development life cycle. Additionally, if you remember, we announced already in Q3 that we are doing a cost cut process in Amdocs that we actually almost completed in Q4.

I think another layer that we've increasingly seen impacting our profitability is all the innovation that we see in the efficiency from generative AI. So you need to assume that the majority of the cost cutting, not all, but the majority was taken place already in Q4. So we wanted to be in a position that we, in 2024, we [have realized] the whole benefit of this activity. So I would say -- I would argue that we have very good visibility.

Ashwin Vassant Shirvaikar ***Citigroup Inc., Research Division - MD & Lead Analyst***

Understood. And then I want to get a little deeper into sort of the revenue growth range 1% to 5%. How much of that is, a, I guess, inorganic contribution? And with regards to the revenue headwind of the 3% that's kind of attributable to reduced customer investment in legacy sort of system enhancements, could you give an example of the kind of work that, that might entail? And I know you mentioned cloud. But it would seem to me that in a time like this, the whole range of what you have should be beneficial with regards to selling to clients. I mean network automation and some of the other factors also. So could you maybe (inaudible)?

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

So let me start with the second question because I forgot the first one. So the -- in most of our customers -- in talking about our big customers, and this is like T-Mobile, AT&T, Vodafone and many others across the world, we are in the last (inaudible) started very significant modernization programs. [Meaning to say] that our customer was spending both in building the new platforms -- this is the new -- most -- all of them are cloud platforms with all the new capabilities of the Amdocs new platform, including some generative AI capabilities -- while we continue to [run for them] in managed services and both -- at the same time, we are doing development on the legacy platform that we are running for them. By the way, this is -- in most of them, this is the system that are the core system today because the monetization program are not -- are just starting and we are in the process of building the new platforms.

So at the same time, they spend money both on the legacy platform enhancements and building the next-generation platform, which is the future of all the operational platforms. Now what we shared with you already last quarter that given the headwinds that everyone is experiencing because of the macro environment and some of the headwinds that the industry is facing, they have done privatization. So they want to double down on the modernization platform while reducing the spend on the legacy platform. So I hope this a bit clarify what we meant.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

With respect to the first question about the inorganic contribution, at the midpoint, it's roughly half coming from those recent acquisitions we talked about. So we feel that looking in terms of the overall picture, on the one hand, we are very excited about our growth pillars. We talked about the cloud continuing to grow double digit. On the other hand, we do see some macro impact on this discretionary spend into enhancing legacy systems. But I think the important point is that our customers are modernizing and building their next-generation stack with us. So that's really important factor as we're looking into the future, and we are continuing to see very good win rates with new customers joining us.

Operator

Our next question comes from the line of Tal Liani of Bank of America.

Tal Liani ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

Two questions. First, so cloud is at least 20% and growing at least 10%. So that means it contributes 2% to the growth. So if I take your guidance for next year and I remove the cloud, it's between minus 1% to plus 3%, that's the growth for next year. So give us the historical perspective in times of slowdown. What happened to spending -- or what happens to Amdocs when customers reduce spending? How long down cycles kind of lasted? And just in general, what did companies do and what they didn't do during slowdowns?

Another kind of follow-up question on the same topic is do you think that this one is different given that the strength was so strong -- I mean, the cycle was so strong in the last 2 years? Does it mean that maybe the slowdown is going to linger a little bit more than historical? I'm just asking it because we see it in other areas. So that's my first question. My second question is quick. It's easy. It's about hedging. Can you tell us -- given that there is a war in Israel, sometimes the currency kind of fluctuates. What's your hedging strategy, for how long do you do it and what's typically the policy around it?

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

Let me try and start with the first question and then Tamar will take the second one. Tal, I not necessarily agree to your mathematics. We grew over 7% last year. And [you need to think] that the cloud [started the growth engine in] double digit [which we don't disclose]. There's another also in 2023. Now going to next year, when we talk about the impact of the 3% -- and this is another phenomenon that I want to explain. The phenomena is that when -- most of the legacy enhancement projects are part of -- it was like -- I want to say like it was almost business as usual. I mean we have large systems that we are adding all the time. We have teams in place. We are doing the projects, and the revenue was pretty much [secured].

When we have a headwind of 3% in this domain, you need to assume that to cut the spending happen very fast. So when customers decide, because of the pressure, to prioritize modernization over legacy, the cut in spending is almost instant. On the other hand, all the new programs, and there are many of them, and new wins that we won in actually last quarter, [all in] fiscal '23, it takes time to ramp these projects up. I'll give you one example.

We announced Three UK. It's a very significant managed services that we've signed last quarter. We are [going to] start to recognize full revenue only towards Q3 next year. We won many transformation program last year. We need to put the teams in place. We need to [move fast] to go through the phases. So sometimes it can take us a quarter or 2 from the time that we win a project until we start to ramp up and recognize revenue. So the phenomena, while the headwind of the legacy revenue is almost immediate, replacing this revenue will take some time when we build up. This is why we also see that -- we see acceleration in sequential growth in half 2 while we have -- all these ramp-up programs will be in place and all the wins that we've gone through last year.

Regarding the cycle, I don't think we can predict right now. Yes, you are right. We've gone through this cycle so many years. I don't think [we could] predict if this one will be longer than others. I can tell you another data point that I believe that at some point, our customers will have to continue to invest also in legacy because right now, this is the core system. This is how they compete in the market. So you cannot completely dry up legacy. And at some point, if you want to compete, you need to invest. I think it's an important point that I want to mention. But I'm not sure I can tell you right now if this cycle is longer or not because we've [witnessed] this cycle before. And I think at some point, they will have to invest because the modernization program is taking years. You're talking a very, very complex modernization program that until all the subscribers will be migrated from the legacy platform to the new one, it will take years. So I don't think that they can keep the legacy system without investment because this is their tools to compete right now.

Tal Liani ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

And Shuky, on modernization program...

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

Tal, on the hedging...

Tal Liani ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

Sorry (inaudible) if you don't mind, before -- yes, before the hedging, if you don't mind, just a follow-up on what Shuky said. If a modernization program starts, then the customer continues at the scheduled pace, what's the risk that they say you need to migrate customers to modern systems, et cetera? What's the risk that this part slows down or that it's more challenging for customers to slow down modernization programs?

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

We did not see any slowdown in modernization because remember, when talking about modernization, this is moving -- the [value prop of] our customers is moving to the cloud, much more agile environment. As we mentioned already, all the new implementation of use cases on generative AI capabilities are targeted to new platform and not to the legacy platform. So if you want to [get] these capabilities and to be successfully -- to be able to successfully compete in the market with a very strong platform on the cloud, a very fast time to market and many, many other things, you need to modernize. We do not see any slowdown in modernization. If any, in some customers, we saw acceleration.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

Just [to add on that point], drawing from past down scenarios, whether it is the financial crisis or even in the midst of the COVID, we did not see any modernization project slowdown. So just to back up, what we are seeing right now is not surprising. In terms of the...

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

(inaudible) Did you get my point? As I just mentioned, when you replace -- sometimes, when you replace legacy revenue, sometimes it takes some time to catch up.

Tal Liani ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

I fully understand it. Now I understand it. Absolutely.

Joshua Sheffer ***Amdocs Limited - President, CEO & Director***

Okay. Tamar?

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & COO***

Regarding the currency and then our hedging, in general, we are looking forward for hedging on an ongoing basis. So we are not waiting for a certain market opportunity as we want to protect the bottom line, which means practically in the near term, when we look, for example, on Q1 2024 or even on fiscal '24 as a whole, we are already coming into the year with pretty high coverage of our hedging. Yes, taking advantage of weakness of currency, as we've seen now in the Israeli shekel, means we can improve the effective rate of our hedging for the latter part of '24 and mainly for 2025, which, of course, we are doing as we speak.

Operator

(Operator Instructions) I'm showing no further questions at this time. I'd like to turn the call back over to Matt Smith for any closing remarks.

Matthew E. Smith ***Amdocs Limited - Secretary & Head of IR***

Thank you, operator. And thanks, everyone, for joining the call this evening. We do look forward to hearing from you very soon. And as always, if you have any additional questions, just reach out to us here in the IR group. With that, have a great evening.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.