

AMDOCS Q2 2023 CONFERENCE CALL SCRIPT – FINAL
May 10, 2023
5:00 pm

Matthew Smith, Head of Investor Relations

Slide 2: Disclaimer

Thank you, operator. Before we begin, I need to call your attention to our disclaimer statement on slide 2 of the presentation. It notes that some of our comments today may be forward-looking statements and are subject to risks and uncertainties, 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.

Slide 3: Today's Speakers

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

Slide 4: Earnings Call Agenda

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 second quarter fiscal 2023 and will update you on the continued progress we have made executing against our strategic growth framework.

Shuky will finish by commenting on our financial outlook for the full fiscal year 2023, after which Tamar will provide additional details on our second quarter financial performance and forward guidance.

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

Slide 5: Shuky Sheffer

Shuky Sheffer, Chief Executive Officer

Thanks, Matt, and good afternoon to everyone joining us on the call today.

Slide 6: Solid Quarter With Significant Achievements

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I am pleased with our second fiscal quarter performance as we **progressed** our strategy to deliver the **next-generation**, cloud-based software, and services that global communications service providers need to unlock the potential of 5G and broadband networks, data-driven intelligence, and improved customer experience for the consumer and B2B.

This quarter we:

- **Deepened** our relationships and expanded our footprint with existing customers
- **Added four** new customer logos
- **Sustained** a high rate of successful project deployments
- **Delivered a record** quarter in managed services
- **Expanded** our strategic partnership with Microsoft
- **Signed an M&A agreement to** enhance the execution of our network strategy, and
- **Launched** CES23, our most advanced Customer Experience Suite yet, bringing fresh innovation across BSS, OSS and network while **sharpening** our focus on the B2B domain

These achievements would not be possible without the amazing **passion, agility**, and **collaborative** spirit of our talented people, to whom I would like to say **thanks** for their **consistent** quarterly execution while also demonstrating the strategic **vision** necessary to **drive** Amdocs **forward** over the long-term.

Slide 7: Q2 Financial Highlights: Record Revenue, Continued Sales Momentum and Ongoing Margin Improvement

Reviewing the financial highlights on slide 7:

- **Record revenue of \$1.22 billion** was above the midpoint of guidance and up 8.2% year-over-year in constant currency
- On the bottom-line, non-GAAP diluted earnings per share of \$1.47 was consistent with the midpoint of guidance as we delivered **ongoing margin improvement** and **strong** free cash flow generation in the quarter
- Twelve-month backlog was a **record-high \$4.11 billion**, up roughly 7% from a year ago in constant currency

Slide 8: Second Fiscal Quarter Operational Highlights

Turning to the operational highlights on slide 8, we delivered continued sales momentum in Q2 which included a significant new digital modernization award at **T-Mobile USA**.

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- Deal activity was **strong** in **Europe**, which as we have said before is a region of **significant** growth potential for Amdocs. Our multi-year investments to **diversify** and **increase** market share in Europe are bearing fruit, as reflected by record revenue and the award of **several significant deals, including** digital modernization programs at **two new** logos this quarter.
- Similarly, Rest of World continues to present attractive opportunities for Amdocs, such as the new cloud engagement announced today with **PLDT** in the Philippines
- Managed services also had a great second quarter, which included **record** revenue and newly expanded agreements with **Globe**, also in the Philippines, and a major operator in western Europe.
- **In media, Amdocs Vubiquity** demonstrated continued growth as a trusted provider to the world's leading streaming services, signing a new agreement which expands its decade-long relationship with **Virgin Media UK**.
 - Additionally:
 - **Hispasat**, a Spanish satellite communications operator and **new logo**, chose Vubiquity to bring digital content to its customers in Argentina and the broader Latin America, while
 - **Juice**, which is part of Vubiquity, was selected as a Preferred Fulfillment Vendor under **Amazon Prime Video's** Fulfillment Vendor Program.

From an execution perspective, we maintained a **high rate** of **successful** project deployments in Q2, achieving **major** milestones at many of the world's largest service providers.

For instance, Amdocs played an important role in the recent launch of **AT&T's** fixed wireless access offering, "Internet Air", in select markets, which is running on the new cloud native digital platform we are delivering under the BSSe technology modernization and simplification program with this customer.

This quarter, we also took **several** strategic steps to strengthen our market-leading position and long-term growth profile.

- **First**, we expanded our strategic partnership with **Microsoft** to bring a new, **AI-powered** Customer Engagement Platform which combines Amdocs' market-leading Commerce and Care suite with Microsoft Cloud portfolio to create what we believe is the most compelling telco-specific offering in the market.

- **Amdocs** and **Microsoft** have already begun to execute a joint go-to-market strategy to bring this platform to service providers worldwide, and we can already report **encouraging** signs of customer interest and expanding pipeline of opportunity in both consumer and B2B.
- **Second**, we **sharpened our focus** on the growth potential of B2B with the launch of CES23 which includes enhanced capabilities specifically developed to help service providers meet the increasingly complex demands of their B2B customers.
- **Third**, we are today delighted to announce our intention to acquire the service assurance business of TEOCO for approximately \$90 million cash. Amdocs and TEOCO already partner on some opportunities, and we expect this move to **enhance** the execution of our network automation strategy by providing service providers with a unique end-to-end service orchestration offering, assuring the quality of service and enabling the delivery of next-generation customer experiences.

Slide 9: Progress in Strategic Domains (1/4)

Now, let me update you on our strategic progress as we continued delivering market-leading innovation designed to help service providers:

- **Accelerate** the journey to the cloud
- **Create** seamless digital experiences by **transforming** IT operations for consumer and B2B
- **Launch** and **monetize** new 5G services, and
- **Deliver** dynamic connected experiences with **real-time**, automated networks

Starting with **cloud** on slide 9, service providers are still in the early stages of maximizing the value potential of the cloud, and for most it will be a gradual journey over several years before they fully realize expected benefits such as improved service agility, scalability, innovation, security and customer experience.

- I'm happy to share that more and more of Amdocs' new deals are **cloud related**, and that a **growing number** of operators see Amdocs as the primary technology partner to support their **core system** cloud strategies.
 - The value of Amdocs' cloud-native product suite is already proven in the cloud, and we have the capability to support the optionality of **hybrid** environments for customers.
 - Amdocs also removes complexity for operators by delivering an end-to-end, fully accountable migration path which begins with strategic planning and stretches to cloud-native product deployment and cloud managed services,

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while leveraging our intimate partnerships with Azure, AWS and Google Cloud.

I am delighted to report that **PLDT** and its wireless subsidiary, Smart, are developing a multi-year strategic partnership with Amdocs to accelerate their cloud journey. By bringing our comprehensive suite of cloud services, Amdocs will leverage cloud infrastructure to efficiently migrate business-critical systems and applications to the cloud while also integrating cloud-based applications with the rest of PLDT and Smart's hybrid IT infrastructure.

Among other recent cloud wins:

- Amdocs was selected by a **Tier 1 central European** operator to support and enable its journey to the cloud for critical BSS applications for affiliates in multiple countries, and
- We expanded our managed services relationship with a **major Western European** provider to migrate and operate **non-Amdocs** applications on the cloud.
- We believe such deal momentum reflects the market's **growing recognition** of our unique cloud-domain expertise, and we look forward to supporting these and other customers as they continue their multi-year cloud journeys in respect to their core systems.

Slide 10: Progress in Strategic Domains (2/4)

Moving to slide 10, service providers continue down a path of **digital modernization** to grow revenue, reduce cost and improve experience for **consumer** and B2B customers.

- I am delighted to report that we expanded our role in digital transformation at **T-Mobile** where Amdocs Commerce & Care suite, together with Amdocs **Monetization** suite, will power insightful and transparent experiences across all channels for T-Mobile's consumer and B2B subscribers.
- Amdocs was also selected by a **major** Eastern European operator to create and deploy a new customer engagement platform designed to drive customer loyalty and retention and bolster its social media presence, while a **second** Eastern European service provider chose Amdocs to modernize its IT infrastructure in a strategic, wide-ranging digital transformation project that will enable a harmonized, frictionless customer experience across multiple channels and touchpoints.

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- We are also collaborating with the **YES Network**, the exclusive regional television home of the New York Yankees and Brooklyn Nets, to provide a premium customer experience for YES' direct-to-consumer streaming platform
- The shift from physical to software-based SIM cards is another digital theme creating opportunities for Amdocs.
 - Our cloud-based Amdocs eSIM orchestration platform was recently ranked as number one in the market by independent analyst firm, **Counterpoint** Research, recognizing our growing list of eSIM customers following recent awards with **ICE Norway** and **Drei Austria**.

Slide 11: Progress in Strategic Domains (3/4)

Turning to slide 11, global service providers continue to invest in 5G monetization, including next generation charging and policy solutions, to unlock the future market potential of 5G standalone networks.

- One of **North America's leading** service providers recently deployed Amdocs network Policy solution on AWS to support millions of prepaid subscribers
- Another great example is **WindTre**, a **large** Italian mobile operator, for which Amdocs just completed a modernization project to provide a future proof, 5G-ready monetization stack deployed on the cloud.
- This quarter, Amdocs was also selected by **Magyar Telekom** in Hungary to provide the policy control function in the operator's 5G SA program, and
- We successfully completed a digital transformation project with **Melita Limited** that will enable the **Malta**-based operator to further monetize innovative new 5G and IoT-based services for both consumer and enterprise customers.

Slide 12: Progress in Strategic Domains (4/4)

Turning to **network automation** on slide 12, Amdocs is helping operators to productize 5G network slicing, which is needed to enable the rapid introduction of differentiated mobile services **tailored** for individual consumer or B2B customers.

- Amdocs recently helped **Bell Canada** to successfully deploy its first use case with an automated 5G network slice solution.

Amdocs is also bringing fresh innovation to help service providers rethink the ways in which they manage and maintain network towers, while also reducing their carbon footprint.

- Working with our partner vHive, Amdocs has developed a solution which powers autonomous drone flights to automatically create a **digital 3D twin** of network towers, much more quickly and safely than deploying trucks with tower-climbing teams when they need to survey a site.
- Demonstrating early market demand, we are excited to announce today that **Verizon** has selected our solution to inspect its wireless network infrastructure assets.

Slide 13: Looking Ahead: Reiterating FY2023 Financial Targets

- Now, moving to our fiscal year 2023 outlook, as presented on slide 13.
- As we have repeatedly said over the last few quarters, Amdocs and our customers globally are **not immune** to economic uncertainty, and we are closely monitoring the overall operating environment during the current period of rapidly shifting market dynamics.
- As a key technology enabler and trusted partner to the global communications industry, we believe Amdocs is positioned at the heart of a multi-year, **technology-driven** investment cycle centered around the **major** long-term trends of 5G, network automation, digital modernization, and cloud.
- We also believe in our unique business model, which produces **visible, highly recurring** revenue streams from the **mission critical** systems we support under long-term customer engagements.
- Taking everything into consideration, we are reiterating our full year fiscal 2023 revenue growth outlook within a tighter range of 7% to 9% constant currency, the **midpoint** of which is **unchanged** as compared with our previous outlook.
- On the bottom-line, we are **reiterating** our outlook for non-GAAP diluted earnings per share growth of roughly 9% to 13% in fiscal 2023, which as you may recall we **already raised** in the prior quarter from our initial full year growth target of 8% to 12%.
- Accordingly, we are **well on-track** to deliver **double-digit** expected total shareholder returns for the **third** year running, including our dividend yield.

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

Slide 14: Tamar Rapaport-Dagim

Tamar Rapaport-Dagim, Chief Financial Officer & Chief Operating Officer

Thank you, Shuky, and hello everyone. Thank you for joining us.

Slide 15: Q2 FY2023 Financial Highlights

I am happy to report solid financial results for the second fiscal quarter, the highlights of which you can see on slide 15.

Record Q2 revenue of approximately \$1.223 billion was up 8.2% year-over-year in constant currency.

On a reported basis, revenue increased 6.8% and was slightly **above** the midpoint of guidance, including a positive impact from foreign currency movements of approximately \$3 million compared to our guidance assumptions.

On a regional basis, we delivered **another record** quarter in North America where we are continuing to execute on multiple transformation projects for customers across the broader region.

In Europe, I am also delighted to report our **best-ever** quarter, where, as anticipated, we are seeing double-digit growth as new projects awarded over the last several quarters continue to ramp-up.

Similarly, Rest of World accelerated on a sequential basis in Q2, driven by the positive impact of customer project activity.

Moving down the income statement, our non-GAAP operating margin was 17.8% in Q2, up 20 basis points from a year ago and up 10 basis points sequentially as we continued to realize the benefits of automation and other sophisticated tools implemented to manage costs and drive efficiency gains in our business.

On the bottom-line, non-GAAP diluted EPS of \$1.47 was consistent with the midpoint of our guidance range, and included a non-GAAP effective tax rate of 16.5% which as anticipated was within our annual target range of 13% to 17%.

Diluted GAAP EPS was \$1.23 for the second fiscal quarter, which was **above** the midpoint of our guidance range of \$1.18 to \$1.26.

For your modelling purposes, beginning this fiscal year our quarterly GAAP and non-GAAP net income includes a new line item for net income attributable to noncontrolling interests. This reflects the earnings attributable to our joint venture partner in respect to the land we acquired in 2017 as the site for the new Amdocs Park and will amount to roughly \$0.7 million per quarter now that the campus is complete and operational.

Slide 16: Leading Indicators and Business Resiliency: 12-Month Backlog

Moving to slide 16, 12-month backlog was a record-high \$4.11 billion, up 5.7% year-over-year as reported, and up roughly 7% in constant currency. On a sequential basis, our 12-month backlog was up by \$20 million in Q2.

Our twelve-month backlog has traditionally served as a **good leading indicator** of our business, having consistently averaged around 80% of forward-looking 12-month revenue over the years.

Slide 17: Leading Indicators and Business Resiliency: Managed Services

Turning to slide 17, managed services revenue was a record \$719 million in Q2, up 8.4% from a year ago and equivalent to about 59% of total revenue.

Globe, a leading digital solutions provider in the Philippines, has extended its partnership with Amdocs to reimagine their IT operations, enabled by digital transformation & cloud adaptation, for better business alignment under a multi-year managed services arrangement. This move will enable the company to create greater business value through improved customer experience that will result to revenue growth

Additionally, we signed an expanded managed services agreement with a **major Western European** operator to migrate and operate non-Amdocs applications on the cloud, as Shuky highlighted earlier.

To remind you, our managed services engagements underpin the **resiliency** of our business with **recurring** revenue streams, **near 100% renewal rates** and **expanded** activities under multi-year engagements and may sometimes include modernization projects which **deepen** our relationships even further.

Slide 18: Balance Sheet & Cash Flow

Now, turning to the balance sheet and cash flow highlights on slide 18.

Reflecting strong execution, I am pleased to report that we achieved many production and invoicing milestones this quarter, resulting in healthy customer cash collections. DSOs of 74 days **decreased** by 13 days sequentially and by 7 days year-over-year in Q2, while the net difference of deferred revenue and unbilled receivables **improved** by \$102 million sequentially.

Similarly, we generated robust free cash flow of \$259 million in Q2. Free cash flow was comprised of cash flow from operations of approximately \$294 million, less \$35 million in net capital expenditures, and was strong despite the seasonal timing of annual bonus payments which typically occur in the second fiscal quarter.

Overall, we ended Q2 with a **strong** balance sheet and a healthy cash balance of approximately \$0.9 billion, including aggregate borrowings of roughly \$650 million.

Moreover, we have ample liquidity to support our ongoing business needs while retaining the capacity to fund strategic growth, including the planned acquisition of TEOCO's service assurance business which we expect to complete for roughly \$90 million cash.

Slide 19: Disciplined Capital Allocation

Turning to capital allocation on slide 19, we repurchased \$106 million of our shares in the second quarter and paid cash dividends of \$48 million.

In respect to the full year fiscal 2023, we are reiterating our free cash flow outlook of roughly \$700 million. This assumes a conversion rate of roughly 100% relative to non-GAAP net income and equates to a healthy free cash flow yield of more than 6% relative to Amdocs' current market capitalization

Regarding our capital allocations in fiscal year 2023, we expect to return the majority of our free cash flow to shareholders by way of our quarterly share repurchases and dividend payment programs.

Slide 20: FY2023 Outlook

Now, turning to our outlook on slide 20.

To begin, we are continuing to closely monitor the prevailing level of macro-economic, business, and operational uncertainty, which remains elevated in the current business environment. Thus, the third quarter and full year fiscal 2023 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.

Taking into consideration our performance in the first two quarters, and our visibility to the second half, we are reiterating our outlook for full year fiscal 2023 revenue growth within a **tighter** range of 7% to 9% in constant currency, the 8% **midpoint** of which is **unchanged** as compared with our prior outlook of 6% to 10%.

On a reported basis, we now expect full year revenue growth of 6% to 8% year-over-year, as compared with 5% to 9% year-over-year previously. The new outlook anticipates an unfavorable foreign currency impact of approximately 1% year-over-year, which is unchanged compared with our previous assumption.

Our annual outlook includes third fiscal quarter revenue within a range of **\$1.215** billion to \$1.255 billion.

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Additionally, our fiscal 2023 outlook assumes an immaterial revenue contribution from TEOCO's service assurance business. On an annualized basis, this acquisition is expected to add roughly 0.5% to total revenue in the first full year after closing.

Moving down the income statement, we anticipate quarterly non-GAAP operating margins to **fluctuate around** the **midpoint** of our annual target range of 17.5% to 18.1%.

Below the operating line, we anticipate that foreign currency fluctuations and cost of hedging will continue to impact our non-GAAP net interest and other expense line in the range of a few million dollars on a quarterly basis.

We expect that our non-GAAP effective tax rate will remain within an unchanged annual target range of 13% to 17% for the full fiscal year 2023.

Bringing everything together, we are reiterating our outlook for non-GAAP diluted earnings per share growth in the range of 9% to 13% for the full year fiscal 2023, which as Shuky reminded you we **already raised** in the prior quarter from our initial full year growth target of 8% to 12%.

Overall, we are on-track to deliver **double-digit** expected total shareholder returns for the **third** year running in fiscal 2023, assuming the sum of our expected non-GAAP EPS growth and our dividend yield of roughly 2%.

Slide 21: Committed to ESG

Before passing it back to Shuky, I'd like to take a quick moment to comment on this year's Mobile World Congress in Barcelona which for Amdocs was an opportunity to showcase our commitment to ESG on the global stage.

- We published our first-ever interactive map to show how Amdocs is using technology to help its customers achieve their ESG and sustainable development goals and we used an immersive experience to demonstrate how Amdocs is closing the digital divide by connecting consumers in rural areas to digital services, such as education, healthcare, and employment.
- I am also pleased by our successful digital inclusion partnership with Unconnected.org, through which we donated 30 days internet connectivity to approximately 2,000 girls and their families in India for every visitor to Amdocs' booth.
- Among other recent ESG initiatives, our International Women's Day campaign - Break the Bias – generated 14 million campaign exposures on social media, and we partnered with Unicef to raise roughly \$100,000 via an employee donation drive, with company matching, to support earthquake recovery in Turkey.

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Finally, we are already seeing the benefits from the implementation of a new worldwide policy by which employees are required to work from their office a minimum of three days per week. This move reflects our commitment to create an exceptional work environment that fosters growth, collaboration, and innovation. I am heartened by the even-greater energy levels I am experiencing among our global employees since moving back to the office – including the new Amdocs Park campus which opened recently.

Thank you to all our employees for making Amdocs such an amazing place to work!

With that, back to you, Shuky

Slide 22: Q&A

Shuky Sheffer, Chief Executive Officer

Thank you, Tamar.

As you can probably tell from our remarks today, we are pleased with our solid financial and operational position at the midway point in our fiscal year, and while the global macroeconomic and industry environment remains uncertain, we are acutely focused on delivering a strong second half and another year of steady and profitable growth.

With that, we are happy to take your questions.

Operator?