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PRESENTATION

George Notter - *Jefferies LLC - Analyst*

We'll go ahead and get started. Hi everybody. My name is George Notter. I work here at Jefferies on the equity research side, covering the communications technology sector. And I'm very pleased to have the Amdocs folks with us. To my left, we have the CFO of Amdocs, Tamar Rapaport-Dagim. She is the, in fact, CEO and COO. So don't want to shortchange you there, Tamar, but thank you very much for coming to our conference, participating in the session today. We look forward to having a good session here.

QUESTIONS AND ANSWERS

George Notter - *Jefferies LLC - Analyst*

So, maybe just to start out a kind of an easy one for you. For maybe people at the conference are not as familiar with Amdocs. Could you just give us a quick overview of what is Amdocs? What do you guys do? How do you play in the marketplace?

Tamar Rapaport-Dagim - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Sure. Thank you, George, and thanks for having me here. So, hi everyone. Amdocs has been a software technology player, serving the telecommunication and media market for many years. And we've been actually enabling in very simple description, enabling the communication service providers, media companies to actually provides service to you, the consumer and different enterprises around the world. We are enabling through our software stack and deployment services.

The customers to actually automate, digitize many of the key business processes, whether it's from taking of a new order all the way to monetizing for that new service, whether it's to optimize the network in providing the service capabilities of doing that, and there are many, many examples along the years of things we've expanded into doing.

And whatever that connectivity underlying that service, whether it's wireless, whether it's cable, whether it's fiber, whether it's Internet to the home, whether you're roaming through an international trip or whether you're just sitting and consuming entertainment or indication from your house, we are the one enabling a lot of the digitization and capabilities behind the scenes.

We are about a \$5 billion revenue company, very proudly serving the top tier customers around the world, ranging from here in the UK when you think about Vodafone, BT, free Hutchison group, Virgin Media, O2, all the way around the world to the US market, where we are serving the largest carriers there, AT&T, T-Mobile, Comcast, Charter, Verizon, and I can go on around the world in the tour. Two big players whether it's [APAC] SingTel, Telefonica and America Movil in Latin America.

And I think the interesting thing about our international expansion story is that if you look on our geographical spread over the years, you can see about two-thirds in North America and the rest internationally, but we've been growing both significantly in terms of the number of countries, the number of customers that we are serving.

You can look at it in different ways. For example, top 10 customers. Historically, it used to be primarily North American names. Today, we have 6 out of the 10 international names, not because we lost any customer, just because we added more meaningful engagements over the years. And we are doing that by putting the best technology ahead all the time, investing and being innovative in the marketplace.

If you look at the Gartner and [Owens] of the world and how they're rating the different providers of solutions in the markets we serve, we are definitely playing as a market leader in all of these categories. And we are continuing to invest heavily in innovation, both helping the customers to move into the cloud, which is a big thing in the mission critical systems that we are serving as well as the ability now to leverage the capabilities of generative AI.

Maybe, last point I will mention is that we are coming with a unique accountability model. When we are thinking about typically how software companies are working, they are providing the software and technology and someone else takes the responsibility to get it ready to go live, to deploy, to implement it.

We are actually taking that full responsibility, which is very important in terms of making sure those transformation project and those complex and mission-critical systems actually go live successfully against a track record of transformations in the IT industry that is not that favorable. With us, the success rate is close to 100%, which is a very unique attribute. And then if the customer would like us to, we will continue to support those systems under a multiyear engagement model that we call managed services. We can talk more about that. Probably later on.

George Notter - *Jefferies LLC - Analyst*

I was thinking about -- we picked up coverage of the stock back in December as we were doing homework on the business. You think that just sort of dawned on me is like literally everything that happens in a telecom network as in software. There are so many categories of software here. There are 75 odd software modules spread across the OSS and BSS sectors.

It was just kind of wild to see all those domains and you guys play in nearly every one of those domains. So is there sort of a network effect or benefit that you guys get by having breadth of product portfolio? Is that part of the competitive advantage for Amdocs?

Tamar Rapaport-Dagim - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Absolutely, George. I think what we are seeing over the years is that the ability as someone who's coming with such a breadth of the software and enabling our customers to really think about what is the need they have? What is the priority they want to bring? But so we are coming with a very rich portfolio that includes many products.

But at the same time, it's a modular and open portfolio. So they can really take the pace that they want in terms of how to go about it. But the notion that they know that they have a partner like Amdocs that if in the future, they want to move and adopt more of our product capabilities, they can do that with a pre-integration already built-in, that's definitely a big power.

But what I would like to add to that is that over the years, we've expanded more and more into new domains and what you're seeing now is not just an overnight success kind of it just happened. It's an evolution that's happened over the years. For example, the expansion of our capabilities around network automation. As networks become more software defined, we saw the opportunity to come and support with new capabilities.

For example, how you take monetization to the next level? Helping our customers identify the connection between what's happening on the network side and how you provision the network quality of service with potentially taking it in the future to new monetization model that can guarantee quality of service. Those are the kinds of things we can do because we really see end to end the different needs that are there and enable our customers to actually go about it with the richness of the software product we have.

George Notter - Jefferies LLC - Analyst

You talked about sort of the combination of the software components and then sort of the integration side, the services side. Have you guys talked about how much of the business is in software, how much of it is in services? Is that something you guys have kind of spelled out for folks?

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

It is really in another way we look at it because we never just sell the software.

George Notter - Jefferies LLC - Analyst

That's project oriented.

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

It's more about taking that full accountability. And the way we are looking at it is what is the problem to be solved from the customer point of view and what are the right products from a software point of view that are relevant for that and also how they want to go about it from the program and the pace of changing things? I'll give you an example. The move to the cloud is definitely a big thing that is happening in the industry and where we are thinking about the mission critical systems and applications that serve the communication industry, that journey is probably 10% in, so ahead is yet to happen. And we'll definitely as a market leader, the one wants to take the industry to the cloud.

So when we thought about how to do that, we realized we need to cater to different kind of appetite across our customer base. So those who are very aggressive and they want to invest in building a new stack based on our current portfolio, the latest and greatest capabilities will be ready, the old systems or the current system of records that they have will be taken out.

Those who want to move over gradual, we are offering an upgrade path. And well, first that we'll be able to take their existing products version and make it cloud-enabled and later on, they will move to the full cloud-native software stack. So we are giving different capabilities, including migrating from really all the applications to the cloud.

By giving that end-to-end story to our customers and by telling them we, Amdocs, can help you all the way both works, installing the new stack like we do, for example, in the case of AT&T, T-Mobile, Vodafone Germany, which are running those large-scale transformations all the way to doing the more gradual approach. A recent example is Optus in Australia, where they are taking an existing version that we have installed there, they are now upgrading to a cloud version.

We can do all of the above. And I think that shows to the example, why it's not just about the license of the product itself. It's about the full outcomes that we are coming with. It also true when we come and tell our customers, we will run those systems for you under those multi-year agreements that they spoke about, those managed services agreements.

Also there, we are coming with a notion that we are committing for value. We are committing for the outcome. A service level for certain scope of applications under the predefined price. And also there often times it can be that, you know, if historically someone just use the software and just paid maintenance, now we are coming with a full managed services engagement that maintenance is kind of embedded in, right? It's not separately priced. It's part of that engagement model that we are selling.

So to us, from the monetization point of view, it's about what's the optimized revenue we can have from a customer, and over time, we have very long-term relationship, and you want to see expansion of business with existing customers as well as many new logos. I mean some of the names I can mention today of the top 10 customers like SingTel that they talked about, the Vodafone, you know, those are the evolution of relationship that's happened over the years.



George Notter - Jefferies LLC - Analyst

You guys started breaking out the cloud revenue for the first time a few quarters ago. Roughly 20% of sales. I think you mentioned the 10% number a few moments ago.

And I think what you're referencing is 10% of customers are now on the CES23, 24, the cloud native versions of the platform.

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

Just to be clear, when I said 10%, I mean, globally moving to the cloud in our industry in all kinds of applications. But if I look on our customers, many of them are still in the journey. So when you look on workloads moving to the cloud, even if someone started to build there cloud native stack based on Amdocs, not necessarily they are moving overnight, everything to be on that new system. Usually it's more gradual.

So if you think about and AT&T Consumer, for example, which we serve. We serve for many years based on our existing systems, but we also build now for AT&T, the new stack to serve the consumer business in the future. So far, the launch of the new stack fixed wireless. In the future, I'm sure many more use cases will be launched on the stack. Eventually all of their 100-plus subscribers of the consumer domain will migrate to the new stack. But those things will take years. In the meanwhile, we're helping them build those capabilities.

George Notter - Jefferies LLC - Analyst

Got it. Okay. Why do you think customers by and large are so early in their journeys, right? In terms of the move to the cloud. Is there -- can you talk about sort of the inertia in the market space, the customers and maybe talk about what Amdocs can do to sort of kind of control some of these customers and kind of move down the path may be a bit more quickly?

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

So when you look at on the move to the cloud, I mean, we are not talking here about regular applications like email or ERP for sake of example. We're talking about the most mission critical systems that they have, they invested in many years as the industry was being built in creating those capabilities running it on their own data centers. By the way, we don't do any of the data center business. So it's not that we have anything to be cannibalized from that point of view.

But from their point of view, they made massive investments both on the application layer, the infrastructure layer, the data centers themselves. So for them, to move into the cloud, there needs to be a significant benefit in doing so. And I think that over time, based on different references and examples as well as our ability to show them the way and to have different ways of getting to the endpoint, I think we can really lead the industry in this move, in those mission critical systems to the cloud.

And that's a big opportunity for us, A, to help them in doing so and B, to really gain the benefit of being the ones supporting them in doing that all the way. Again, here when I'm thinking about the next-generation cloud-native application layer, we can also help them with cloud ops. Think about now they need to run their workloads on the cloud.

How to optimize from the application point of view? How to optimize from the field ops point of view? And you can take the full responsibility in the new model of managed services that we provide also for those applications which are already running on the cloud. And we've established strategic partnerships with the big hyperscalers, like AWS, Microsoft, Azure, et cetera, in order to make sure that we are ready for whatever choice they make, our customers in terms of how they want to go about it.

George Notter - Jefferies LLC - Analyst

You guys just announced a deal or expansion of your relationship with AT&T. I understand that was driven by an acquisition in the Astadia deal, which I think is about moving applications off of mainframes, real traditional models into the cloud. But can you talk a bit about that? Is there any more insight you can give us under that transaction? Can you give us a sense for how big it is, how many years it is? Can you give us a sense if that's leverageable on to other customer relationships that you have? What can you tell us there?

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

Yes, absolutely. So I think that the opportunity of the telecom industry to move to the cloud. First, it's about new applications being cloud-native with the speed and time to market and better, much better security and additional functionality. But it's also about how do we deal as an industry with many applications that are running on all kinds of electricity infrastructure layers, mainframe, probably the oldest, and it's a real issue.

And one of the things we realized is that we need to help in finding strong technology know-how to do it in a low risk, responsible way and still in a way that obviously benefits our customers in terms of the predictability in which they can do, it in terms of the cost to achieve that, et cetera. And we've actually built with AT&T, I think, a very meaningful win-win in that new deal. It's a significant deal.

We haven't disclosed the size of that. It was signed in early May. And in that deal, we are taking responsibility to help them move through technology know-how we have in Amdocs as well as from the acquired company, Astadia that we acquired in November '23 to take hundreds of applications from legacy infrastructure layers, including may, from all the way to the cloud. It's part of, again, this accountability that we're bringing to the table. We are going to take responsibility for preparing the environments on the cloud, for doing the migration work itself, for running under this five-year agreement, also the existing applications once they move to the cloud to run it on the cloud.

So through taking this full responsibility as part of this deal, we've also extended additional managed services engagements we have in AT&T in the consumer domain through 2029. So that's additional benefit of that deal. So yes, we will. And I think this is an opportunity that exist naturally in other customers around the world. Mainframe, hard to believe, but it's still predominantly used in different parts of the industry.

If you think about wireline, for example, was created many years ago. So definitely, we see that as an opportunity to take to other customers, and we are developing the pipeline as we speak with this great reference in AT&T. I think it will open the way to many additional deals.

George Notter - Jefferies LLC - Analyst

Got it. Fantastic. Okay. Can you talk a little bit about sort of -- I think the narrative in the stock right now is the stock's been soft of late of course. I think it's sort of an interesting environment, right? Because you have a lot of people who are pretty down on telecom operators. The companies, I think the perception is that maybe they're less relevant than they have been historically, the world seems to revolve around cloud providers right now.

If you go to trade shows and you walk around this conference. What do you think just generally about your customer set and how healthy are they? Are there financial results and capital budgets of those operators? Does that create a cap to your business or your opportunity to grow? Or like how do you think about kind of those customers and the outlook there and kind of your role there?

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

So I think it's really interesting. If you just look and analyze different IT spend of different verticals around the world, telecom is probably still the number two, after financial services. And if you think about it, all the connectivity, all the consumption of communication services and the dynamics that are happening around the world of how we actually consume communication and for what, is evolving very, very fast. Which means that the communication industry needs to continue to invest.

Now the big thing for us over the years and still the case today is to identify what do they need to invest in and are we the ones to provide them the solutions for that? And this is why we defined our strategy to focus naturally on the multibillion-dollar growth domains that they are going to invest in, like the move to the cloud, like getting ready for new monetization models around different kinds of connectivity, whether connectivity is coming from 5G fixed wireless fiber, we don't care.

We want to be able to be the ones providing them the flexibility to create those right, automated and digitized business processes with the Max kind of them Meg flexibility to do all of the above across different lines of business. Think about how we used to think of the world? We used to think about a wireless company, a cable company and Internet connectivity. This is no longer the relevant way to think about it.

The relevant way to think about it is who's the end customer? Is it a teenager? Is it a business person? Is it a family? Is it the small, medium business? What are the kinds of services they consume? And this is how we are thinking about how we are actually designing our offerings=, giving the fullest flexibility to our customer to use the same stack for all of those needs, which is a big [OY] from their point of view, so they don't need to invest once for this thing and once for this thing.

So the way we're thinking about it is, okay, now given the telecom industry is huge, and when we look on the relevant domains that we are relevant for, those growth domains, this is \$60 billion. Six zero. That's a huge amount. We are a \$5 billion revenue company. So while being the market leader, yes, within that defensible market, there is still of oil to pump from that well.

So I think the issue is the pace in which decisions are being made. Those are tough decision, mission-critical systems, it takes time until some customer decides to move into a transformation. It means that when they make this decision, we need to have a very high win rate and we do. It means that once we are in, we need to deliver the greatest value which we do. Talking again about this high success rates in deploying those projects successfully.

Once we are in, we need to have a very high renewal rate and we have close to 100% renewal rate. So that in addition to the fact we continue to generate new offerings, new logos, expand internationally, et cetera, means we can grow faster than the end market. Of course, all of that needs to translate to healthy margins, cash flow, et cetera, I assume there are more questions coming up on that and we'll get to address those points, but I do believe that even in a slow growth of an end market, i.e., the telecom industry, we can grow faster by targeting the right things and having such a meaningful win rate against a significant addressable market.

One last thing to say about that, about half of the global spend in our domains is still done with in-house organizations of our customers. So that's an amazing pool of money that if we bring a different value proposition where we can take the full accountability to really help them modernize, reduce overall cost structure and get better and predictable value of outcomes, think about the pool of money that is there to take to external supply chains. By having a high win rate, hopefully a lot of that pool will go in our way.

George Notter - Jefferies LLC - Analyst

Can the company get back to 6%, 7%, 8% types of growth rates? You guys put up those growth rates in the last couple of years. I think even if I look back to 2021, if I kind of account for the divestiture of Open Market, I think you were still growing at or above that rate.

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

Above 7%, yeah.

George Notter - Jefferies LLC - Analyst

Yes. I mean it's been phenomenal growth. Now we're stepping down. We've got issues with customers trading off, kind of legacy systems against network transformation projects. You've got, as you mentioned earlier, some slower decision making. But do you see kind of a path towards some of those issues kind of working themselves out?

Or is it just the company has got to have sort of buckle down and fight through those things and gain share, like how do you think about the growth that you're having?

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

So I think, You're right. I mean, specifically this year, after three years of growing between 7% and 10%, we've been tracking lower than our expectations, primarily, the one, number one reason we've seen is some pressure from lower investments in enhancing existing systems as the same large customers are building their next-generation stack with us. So that kind of legacy revenue drop happened. There is a stabilization scenes. And we are seeing now in the second half of the year, the return to growth as we expected. So we started the year in more of a plateau and then we're accelerating sequentially in Q3 and Q4.

I think what's important is that why we are seeing some years in which we can grow faster, and some years may be like this one where it's been more challenging to keep the same growth. We are continuing to support existing customers with 100%, but also we're not losing any business. We are continuing to have a very high win. So we are adding new capabilities and new wins. So more new things are coming in.

One of the leading indicators in our business for growth and progress is a metric of 12 months backlog. It is the backlog in our hand already to serve the next 12 months revenue and that has been continuing to grow. We are continuing to -- and that's by the way before the recent AT&T win that happened after March 31. But from looking at the March 31 number, it continued to grow year over year.

So I continue to see good indications of progress and growth. So we're not in a position right now to guide to a specific number of next year but I feel that there is good progress out there. Very importantly, while we are seeing years of 7% to 10% growth a year, like this year with 3% growth, we're very focused on converting that to a double-digit shareholders' return as defined by earnings per share growth, plus the dividend yield of over 2% that we have.

And if you look on the last three years, we've delivered above 10% of the shareholders' return, and we are targeting this year to repeat the same. So all of the elements that we have, the different levers that we have, top line growth, margin expansion, definitely big part of our ability to grow the earnings per share. Capital allocation, we return the vast majority of our cash to shareholders. All of these levers together and of course, continuing to invest in innovation to be relevant for the future needs of our customers is bringing it all together to that double digit thesis.

George Notter - Jefferies LLC - Analyst

I think is so interesting. I mean, the stock trade. You had historical forward P/E multiples like 14, stock trades at 10/11 right now. The beta in your business is dramatically lower than the beta the stock, right? And so is there something you can do right now to take advantage of this? Can you buy the stock back more aggressively? Is that something you guys have looked at? I realize there's a lot of free cash flow already going into the share repurchase but does that -- is there an opportunity to get more aggressive?

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

So the way we're thinking about our capital allocation, first of all, of course, converting into cash so we will have liquidity from the business. So we're very focused on that. If you look in the last several years, we are converting roughly 100% of earnings to cash. And then it's about the capital allocation. We've been less acquisitive recently, but we do think of M&A as part of the growth strategy, and we want to have the capacity to do it.

We've been returning about 100% of our free cash flow to shareholders through dividends being about 30% of free cash flow and the rest to buyback. Yes, buyback tends to change a bit from quarter to quarter. But I think the consistency is something that matters a lot. So we are not trying to time the buyback in the sense that, okay, this year, we will do low, next year we'll do 3x of that number. But yes, we are positioning our decisions also to take advantage of the weakness in the share price.

But I don't think you should think about that as, okay, so tomorrow, Amdocs is going to lever up the balance sheet and do a massive buy back. It's more of a, I would say fine-tuned decisions around how much we buy back, and we do want to keep the liquidity ready for the right strategic growth initiatives.

We are investing in R&D in a consistent manner, I would say roughly 7% of revenue goes to R&D, which means, you know, significant amount, which I feel we are deploying in the right way in terms of the strategic areas we're focusing on, but M&A can definitely accelerate our offering. And we are looking on things. We are a disciplined buyer. No, you may hear from every company, but I truly believe that we are looking in the right manner and M&A in terms of really what is the strategic fit? Where do we see something that can move the needle, not necessarily in a big way because if you look on the deals, you know, the added capabilities, none of them on the whole kind of, okay, create a new, totally new market. But in the aggregate, the things we are making in terms of M&A are definitely supporting the strategy that we do. And we want to continue to look at it.

George Notter - Jefferies LLC - Analyst

Super. That's terrific. We'll leave it right there. Tamar, thank you very much. We appreciate your time today. Have a great day. Thanks, everyone.

Tamar Rapaport-Dagim - Amdocs Ltd - Chief Financial Officer, Chief Operating Officer

Thank you, George. Thank you very much. Thank you, everyone.

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